ANNUAL REPORT

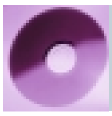
2001

BASLER
VISION TECHNOLOGIES

BASLER-FIGURES

	2001 in Euro Mill.	2000 in Euro Mill.
SALES	**26.6**	**40.3**
GROSS PROFIT	**11.1 (42%)**	**24.2 (60%)**
Selling and marketing expenses	7.2 (27%)	10.3 (26%)
General and administrative expenses	9.6 (36%)	10.0 (25%)
Research and development expenses	7.5 (28%)	7.9 (20%)
TOTAL OPERATING EXPENSES	**24.3**	**28.1**
OPERATING RESULT	**-13.1**	**-4.0**
NET RESULT	**-20.6**	**-1.6**
Number of Shares	3.500.000	3.500.000
RESULT PER SHARE (in Euro)	**-5.88**	**-0.47**
CASH AS OF 31.12.	**4.6**	**1.8**
TOTAL BALANCE SHEET	**21.9**	**40.0**
ORDER INCOME	**22.9**	**38.6**
STAFF AS OF 31.12.	**259**	**303**
SHARE PRICE AS OF 31.12. (in Euro)	**2.10**	**12.70**

MARKETS AND PRODUCTS

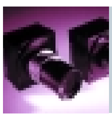


Optical Media Inspection
Inspection systems for the optical media industry

Sealing Inspection
Development and distribution of inspection systems for rubber- and elastomer-industry

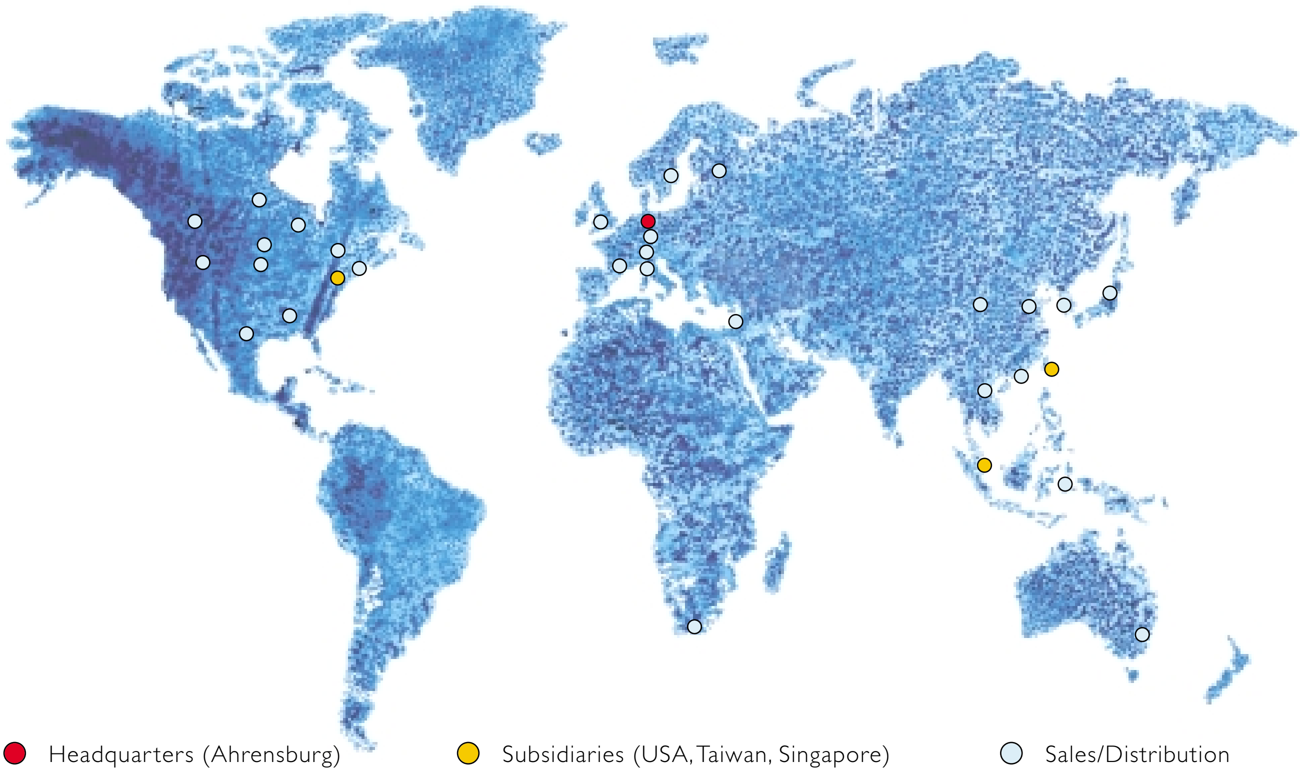
Display Inspection
Systems for quality inspection of flat screens

Web Inspection
Systems for inspection of the surfaces of endless plastic-foils



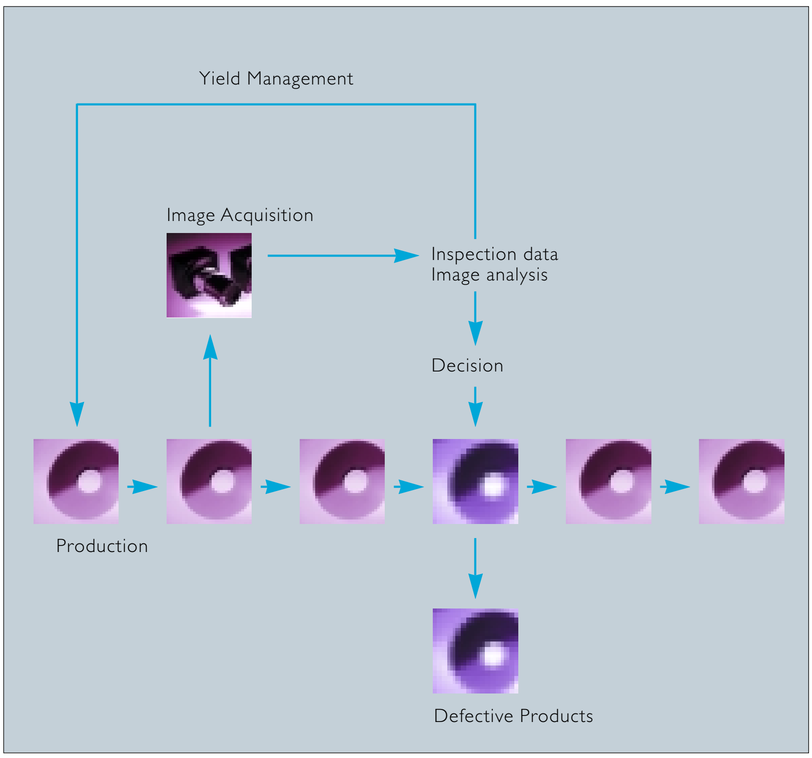
Machine Vision Components
Development and manufacturing of components for artificial vision systems.

BASLER LOCATIONS



Headquarters (Ahrensburg)   Subsidiaries (USA, Taiwan, Singapore)   Sales/Distribution

FUNCTIONAL PRINCIPLE OF VISION TECHNOLOGY



We at Basler.

As a Vision Technology company we strive with creativity and responsiveness for our goal: economic success on the basis of innovative technology.

We work professionally.

To work professionally means to us: accept challenges, work efficiently, meet commitments, improve yourself constantly.

We act globally.

We work together with people from different cultures treating them with respect and as equals.

We offer solutions.

We solve problems with the help of leading technology to the best benefit of our customers.

We face our responsibilities.

We act responsibly with regard to society and nature.
This implies critical discussions about the use of vision technology.

We stand together.

Integrity means a lot to us. We work together in an open and honest way and meet challenges together.

Content

CONTENT

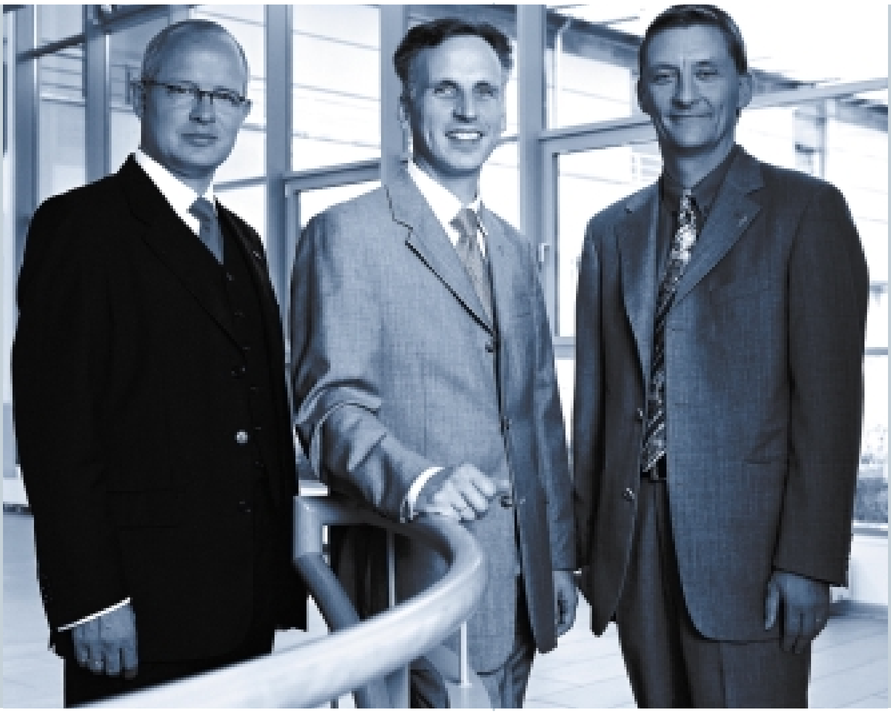
Fully committed to turnaround

Dear Shareholders, Friends and Partners of Basler Group,

2001 was an exceptionally difficult year for Basler. After many years of excellent growth – in some periods exceeding 50% – last year we experienced a drop in sales for the first time, the extent of which (-34%) has led to considerable losses. This decrease was the result of the weak global economy, which had a manifest impact on our business units Sealing Inspection and Vision Components. More crucially, however, Optical Media Inspection, our largest business unit, was affected by a dramatic slump in investment in production plants for optical media, which caused sales revenues in this unit to decline by over 50%. The newly formed units Display Inspection and Web Inspection were not able to compensate for this development. The company had not succeeded in satisfactorily adapting capacities and operating expenses to match the new revenue situation by the end of the year. This resulted in an operative loss (excluding exceptional items) of Euro -9.4 million.

In the second half of the year all influencable operating expenses were adapted to the company's anticipated income. The most important measure put in place to cut costs was the reduction of staff expenditure. 44 jobs were cut – chiefly in administration and production. Moreover further savings were achieved with the aid of part-time solutions, thus retaining valuable employee skills and expertise for the company. Together with savings made

Peter Krumhoff (CFO)
Dr. Dietmar Ley (CEO)
Axel Dancker (COO)



in several other areas of expenditure, the company was able to lower breakeven point from approx. Euro 43 million (2000) to approx. Euro 37 million as of December 31, 2001 (excluding exceptional items). In 2002, when the measures introduced in autumn 2001 will take full effect, we hope to further reduce costs, thus enabling us to reach breakeven point with sales of approx. Euro 30 million.

In addition to lower earnings, the company's results in the year under review were affected by non-recurring exceptional items. Firstly, the company's lower sales brought the projected requirements of raw materials and supplies down to a lower level, and part of the inventories accumulated during times of high growth were threatened with obsolescence, which led to the necessity of valuation reductions to the goods on hand resulting in a depreciation amounting to almost Euro 3.6 million.

Secondly, the lower stock market valuation of semiconductor businesses diminished Basler's stake in Photobit Corporation. This adjusted valuation was later corroborated when Micron Technology, Inc., put in a bid to acquire Photobit Corp. worth Euro 7.6 million. Added to the company's operative loss, the result is a total loss of Euro -20.6 million.

This operative loss and the high amount of capital that is tied up made it necessary to implement measures to secure the company's liquidity in 2001. The first step taken, in conjunction with banks and the Group's long-standing shareholders, was to secure the company's lines of credit and create a solid financial basis for the company in 2002. The inflows of liquidity out of the Photobit Asset Deal was important in this context. Additionally, the company's receivables management was improved, which revealed further financial reserves and generated liquidity in the 4th quarter 2001 (the increase in receivables as of December 31, 2001, is due to the fact that all receivables active at the end of the fiscal year have been included).

We look to the future with the events of the past year still very much in mind. Against the background of the exceptionally unsatisfactory results of 2001, it seems justified to question Basler's strategy and to ask whether the company is addressing the right target markets. This matter has been intensively discussed and analysed by the company's management. Both the new executive team and staff have expressed their confidence in the corporate strategy and the measures introduced to implement it.

We remain fully committed to our strategy, despite the disappointing results of 2001. In terms of sales revenue development, we expect that sales generated by the business areas in which we are traditionally strong – Optical Media Inspection and Sealing Inspection – will remain stable at last year's level. Vision Components, Display Inspection and Web Inspection are expected to continue to display further growth. This development will mean that revenue contributions are more evenly spread across all our business units and activities than in the past, thus further diversifying opportunities and risks.

Throughout 2001, the company meticulously prepared itself to face the challenges that 2002 will bring. The management team was reinforced by the recruitment of experienced new executives. Improved control tools were introduced at all levels of the company. The incorporation of Basler's systems activities in a new corporate division, Vision Systems, enables us to exploit a number of valuable synergies, particularly in Research & Development. All business processes have been minutely examined, and some have been restructured. At the end of the year, Basler's quality management system was certified in accordance with ISO 9001:2000, documenting the fact that all the processes along the company's value chain are clearly defined and systematically implemented, with compliance being constantly monitored. Our operating expenses have been trimmed to correspond to our expected sales.

This range of measures creates a firm basis and it enables us to provide our customers with even better products and services, and to make our company more efficient than ever.

The company has one key objective for 2002: to achieve turnaround and make a profit. Both staff and management at Basler are fully committed to attaining this goal.

Ahrensburg, March 2002

The Executive Board

Dr. Dietmar Ley,
Axel Dancker,
Peter Krumhoff

Supervisory Board Report

Norbert Basler, Prof. Walter Kunerth, Bernd Priske

In all market environments, and in both good and difficult times, it is always helpful if the Board of Management has experienced partners who can provide regular critical supervision and constructive guidance. In financial year 2001, the Supervisory Board fulfilled the duties incumbent on it by law and under the corporation's statutes and regularly supervised and advised the corporate management. The Supervisory Board regularly received verbal and written reports from the management on the financial situation of Basler AG and its foreign subsidiaries.

The Supervisory Board held four routine meetings in the year under review: on March 01, June 12, September 03 and

December 03, 2001. The Supervisory Board also convened for five extraordinary meetings on January 27, March 17, April 11, May 21 and July 17, 2001. Standing committees as defined in the 2nd sentence of paragraph 2 of Section 171 of the German Corporation Law were not formed. The auditor was present at a Supervisory Board meeting on February 26, 2002, to discuss the management report and financial statements for the fiscal year under review, and reported on the main results of his examination.

In the past year, which was a very eventful year for Basler Group, the main topics discussed by the Supervisory Board were those affecting the company's strategic planning. These included:

• examining the company's structure, which is based on five business units;

• sales of the assets held by Photobit Corporation and the continuation of the development alliance with the buyer, Micron Technology Inc.

The Supervisory Board approved all matters requiring such approval.

There were two resignations from the Board: Bryan Hayes resigned effective January 22, 2001, and Thorsten Schmidtke resigned effective June 30, 2001. New appointments to the Board were Axel Dancker as Chief Operations Officer and Peter Krumhoff as Chief Financial Officer, both appointments effective October 01, 2001.

The corporate accounts, the financial statements as at December 31, 2001, the management report of Basler AG and also the consolidated financial statements as at December 31, 2001, and the annual report on the group's situation have been examined by the auditor, Arthur Andersen Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft mbH of Hamburg, who found that they complied with the law and with the corporation's statutes and accordingly issued an unqualified audit certificate. The Supervisory Board noted the results of the audit with approval.

As required by law, the Supervisory Board has itself examined the financial statements for Basler AG, the consolidated financial statements and the management reports for both Basler AG and the Group. This examination gave rise to no objections and as a result the Supervisory Board has approved the financial statements of Basler AG and the Group prepared by the management.

Over the past year, the Group once again tackled great internal and external challenges. The Group would not have been able to master this difficult situation without the energetic efforts and dedication of its staff and management. The Supervisory Board wishes to thank all members of the Board of Management and all executives and employees of Basler AG for the work performed by them during the past fiscal year.

Ahrensburg, March 2002

For the Supervisory Board:

Prof. Dr.-Ing. Walter Kunerth – Chairman

Basler's Visions

Visions thrust a company forward into the future. They define a direction and prepare the way. Basler Group's vision and mission are clear and unequivocal: In future, there will be intelligent machines in all areas of our life. We shall enable them to see.

It is the aim of the staff to fulfil this mission. On the following pages some of our employees describe their personal vision and mission and explain what motivates them.

Patrick Wulff
Division Manager
Display Inspection

Personal passion:
Cigars and asian cuisine

Entire villages are being built

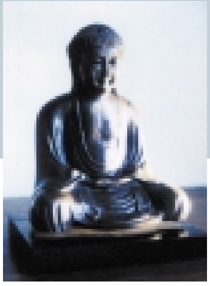
„The street is teeming with construction vehicles, convoy upon convoy; entire villages are being built," explains Patrick Wulff, describing the current situation in Taiwan's flat panel industry. „Even if the superstructure has only just been finished – with no doors or windows – and the mud is knee-high, production in the cleanroom still kicks off. The first one to the post wins."

There are probably very few places on earth that are developing with such dynamism. Production processes, product components and even whole technologies are evolving at ever-increasing speed. Investment of as much as US $500 million per production line is no exception. It's all about the future of flat panel displays.

And the future looks rosy, at least for the consumer. Affordable flat panel displays in all sizes – from computer monitors to wall-mounted TV sets; color displays in all variations, in mobile phones, organizers or other mobile devices; and improved, power-saving displays in laptop computers. Reasonably priced plasma displays with 100 cm screen diameters will occupy a central place in the homes of the future and will function as a „command center" with an integrated TV. Flat panel and plasma screens will soon become everyday objects.

Every week, Patrick Wulff sees production halls shoot out of the ground in Taiwan. Originally, Japan was the center of flat panel production. However, once the flat panel came out of its development phase and was ready for efficient mass production, manufacturing in Japan became too expensive. Only a few years ago, Japan made 60% of the world's flat panel displays; in 2001, this share dwindled considerably in Taiwan's favor. Korea is the world's second largest manufacturer with 30% of world production.

In Europe there are many suppliers of components for flat panel production, but surprisingly enough there is not a



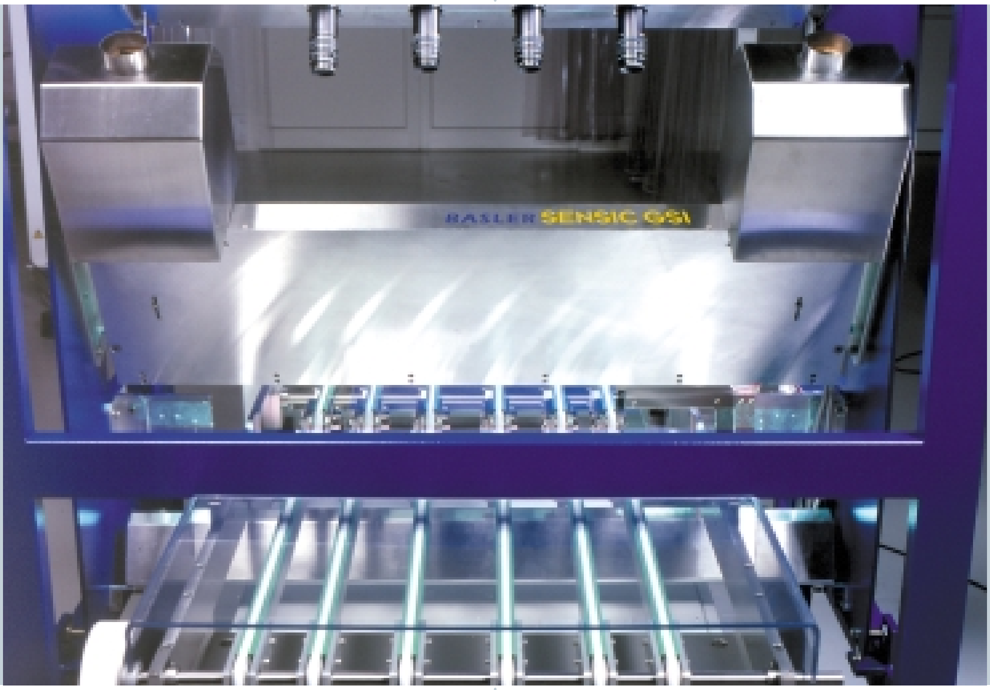
single production line. This is due to the similarity in conditions between Japan and Europe. The future of production, however, lies in China with its far cheaper wages. The first suppliers of semi-finished goods have already established themselves there.

Right now, however, the focus of growth is on Taiwan, where production lines for forth and fifth generation displays with glass substrate sizes of up to 1250 mm are currently being built. This size of coated glass substrate will yield several flat panel displays. Similar to the semiconductor industry, where the cost per chip has been decreased by using larger wafers, the cost of producing flat panel displays can be cut considerably by processing larger sized glass substrates. These savings translate into lower prices for the consumer.

Compared with the semiconductor industry there is still much scope for optimization in flat panel production processes. A simple calculation proves this: the effectiveness of a single production step is presently a satisfactory 95%; but with anything up to twenty steps required to make a flat panel display, this means that the effectiveness of the entire production process is actually only just 35%.

The result is that two out of three flat panel displays are rejects, which explains the high cost for the end consumer.

And it is precisely here that Basler's Vision Technology comes into the game. Camera-based systems inspect the quality of the various intermediate products.



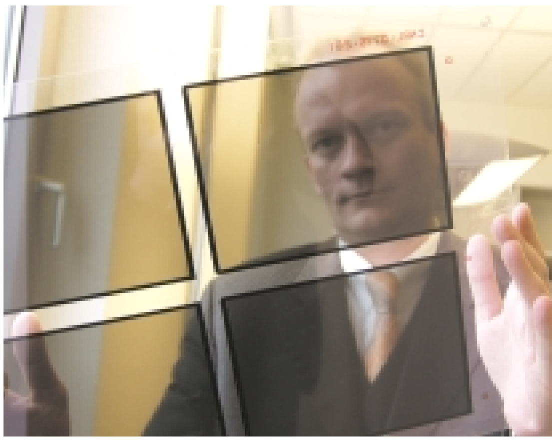
Basler SENSIC for the inspection of glass substrates

„This occurs inline and at production speed," explains Patrick Wulff, „which means that the customer has fewer transport paths and thus fewer handling systems, which represent a considerable cost factor. Also, no production time is lost due to inspection. Equally important is the fact that inspection data can be evaluated immediately and flows straight back into the production process. Semi-finished products with serious flaws are automatically rejected, and no further time is wasted finishing defective intermediate products."

The Basler SENSIC product family from the Display Inspection business unit consists of several inspection modules which can be flexibly combined. They form the ideal solution for the inspection of the basic glass substrates used in flat panel display manufacturing (Indium Tin Oxyde coated glass) or for inspecting glass substrates coated with color filters.

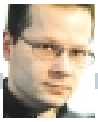
A further winning feature of the Basler SENSIC is that it can be used in conjunction with a database to establish an entire inspection network for multiple process stages. By networking these data the configuration of the production facility can be automatically adjusted, meaning that recurring errors are eliminated from the very start. A network of Basler SENSIC inspection machines can create a complete yield management system, which considerably increases the effectiveness of the facility.

This integrated inline solution is the only one of its kind on the market. It is further enhanced by a range of additional options: an air cushion handling system passes the glass through the inspection system. This prevents dirt, scratches or defects caused by robot arms or conveyor belts from occurring.

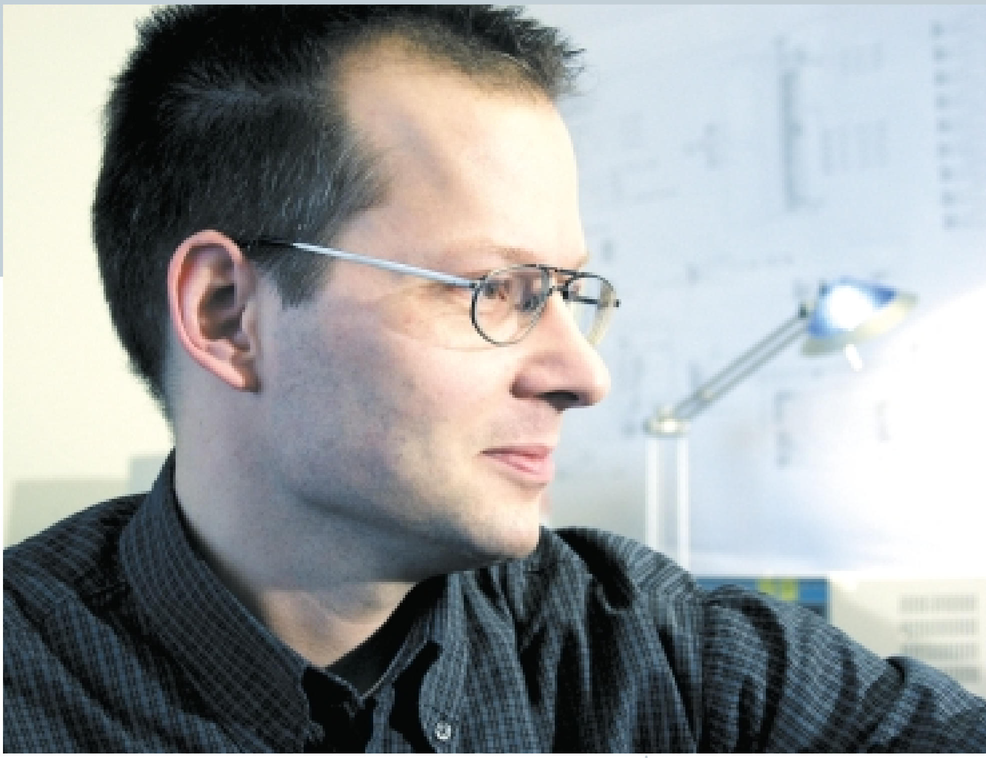


Color filter on glass substrate

Patrick Wulff loves selling Basler products: „I'm selling an interesting technology at a reasonable price. What more could I want?" The Asian cuisine enthusiast is also partial to cigars – particularly after the conclusion of a successful deal. His vision? „Very simple. Affordable flat panel screens for everyone!"

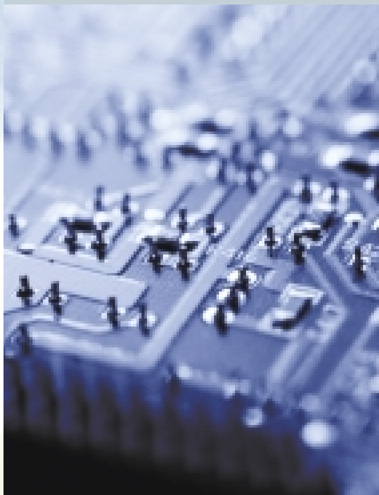


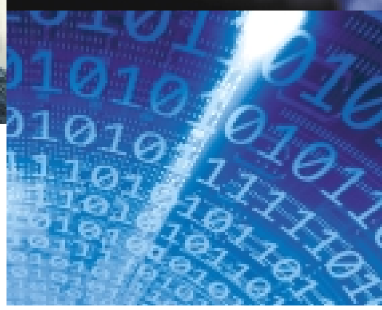
High Speed at Low Cost



Daniel Diezemann
Developer
Vision Components

Hobby: His Career





Very few people are lucky enough to turn their hobby into a career. Daniel Diezemann, camera developer in the Vision Components division, is one of them: „It all started with Fischer Technik and continued when the first computers hit the market – I have always been fascinated by technology.“ Now Basler benefits from this fascination. „Here I can let my creativity really run free within the guidelines of specific projects.“

The new A500 camera series is an example of creative and efficient engineering à la Basler. Daniel Diezemann describes how the project started: „A customer wanted a special camera solution for a high speed application. Other suppliers had already tried and failed.” An informal inquiry developed into a concrete order; the customer's specifications manual was transformed into a product brief for the development team. The overall challenge was split into smaller individual problems, solution paths were allocated and a detailed schedule was defined.

„In development you always tread a fine line between fulfilling the specifications and adhering to the most cost-effective conditions," says Daniel Diezemann, describing the process. The linchpin of the project is the team itself, carefully picked according to the task in hand and the skills of the team members. There are many milestones to be passed along the demanding road to the finished product, milestones that people working on their own would probably never be able to solve. Discussions between developers, midnight calls to talk about a new idea, the legendary brainwave – these fruitful factors need a team to develop and ripen.

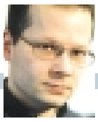
At the end, after all these challenges – and a number of unexpected hurdles – have been overcome, stands the final product and a satisfied customer. In the above example the result was a high performance camera with over a million pixels and up to 8000 frames per second, depending on image section. The camera is one of a whole product family of high performance cameras by Basler which are intended for use in high speed applications, such as crash test analyses. One of the unique features of the camera is its programmable logic cells that enable image data preprocessing of up

Camera out of the A500 product family

The teams do not only consist of developers. Depending on the exact brief, tasks are coordinated with a variety of different partners: purchasing, to identify the cheapest source of a specific component; production, to discuss the structure of the camera with regard to the best and most economic method of production; sales and marketing, to arrange the product launch.

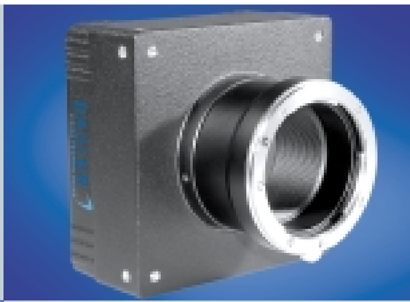
to 600 Mbytes per second, a data rate which many computers would have difficulty handling.

The future of sophisticated cameras lies in „smart" product features like these: technological progress is yielding products that are getting progressively smaller, more powerful and more intelligent. Many tasks that presently require human



Extensive testing
secures promised quality

High performance cameras –
new generation



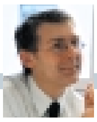
vision will soon be fully automated. The advantages are obvious: cameras never tire and make no or very few errors, even at great processing speeds. Applications such as cameras that automatically read car license plates and record the time of entry into a car park have left the realm of science fiction and are now a part of our everyday world.

There is a clear trend towards the most advanced image sensors: CMOS image sensors, which are used in the A500 series. Daniel Diezemann outlines the advantages of this technology: „They are more powerful, and cheaper to produce and operate". CMOS image sensors also represent a further crucial step towards complete miniaturization: the System-on-Chip. Cameras the size of a fingernail which are more efficient than anything previously available. This technology will mean that objects that are too small to include a camera will tomorrow be able to hold multiple „Vision Systems". Objects that are presently scanned and identified with complex and expensive solutions will tomorrow require only cameras incorporated in parcels, vehicles or any other moveable object.

At the core of this technology are the developers and users of these high performance cameras. Basler, as both developer and user, is in an ideal position to identify and implement technical improvements. Our cameras are made by our Vision Components division and subsequently used by our Vision Systems division, which makes and markets systems for the inspection of optical media, flat panel displays, rubber sealing rings and plastic webs.

Daniel Diezemann knows from experience that customers can be a very strong motor for driving developments. When he was young, the fact that he could only transmit video data slowly and with poor quality to his Amiga computer bothered him. As the manufacturer had no solution available, he developed his own framegrabber which transmitted the data smoothly to the Amiga's main memory. This piece of technology transformed Daniel Diezemann into a self-employed supplier of image processing components: adverts in all the relevant periodicals attracted customers and the framegrabber was a great sales hit, spawning 5 versions.

This experience is brought in by Diezemann actively and successfully: „There's no doubt about it: market and customer oriented thinking is essential for technological progress." The problems that later generate solutions and initiate technological progress occur in the customer's facility and not in the developer's lab. And some of those problems may end up on Daniel Diezemann's desk.



Dr. Michael Fuß
Head of Production

Hobby: His old Beetle

Live quality

Michael Fuß, what significance does production have for Basler?

Basler is a technology company and not a manufacturer in the traditional sense. Our key focus is on developing and marketing our products. In many areas customized manufacturing dominate, instead of mass production. For production this means that we concentrate on assembly, as well as installing our products. Our highest level of inhouse development is in producing models and prototypes.

Would it be true to say that the more complex the product, the higher the level of skills that the employees are required to have?

Absolutely correct. Basler's production staff has a very high level of qualification. We also have a very broad range of products. In our electronics division we produce components for our own systems; in assembly we make everything, from cameras right through to complex inspection systems. The core product in Sealing Inspection – the Basler VARIO – is an inspection system which handles sealing rings during inspection and subsequent sorting processes. In our Vision Components division we also manufacture the cameras which form the core of all Vision Systems. These cameras contain a multitude of electronic components, and our staff must be highly skilled to assemble them. Quality assurance is integrated in every team, meaning that the staff is responsible for checking the products it has manufactured. It is essential that our employees have finely tuned skills and expertise.

What significance does quality have for Basler Group?

Last year we invested a lot of hard work in expanding our quality management system. In December 2001, these efforts were rewarded by ISO 9001:2000 certification, which is the new standard. This is an important milestone for the company.

What is ISO 9001:2000, and what consequences does it have for the company?

The ISO 9001:2000 standard is the latest industry standard, and it stipulates how a company defines all processes in its value chain, how these processes are systematically addressed and constantly monitored. We decided to tackle this project last year

Many parts of the Basler VARIO are supplied premanufactured

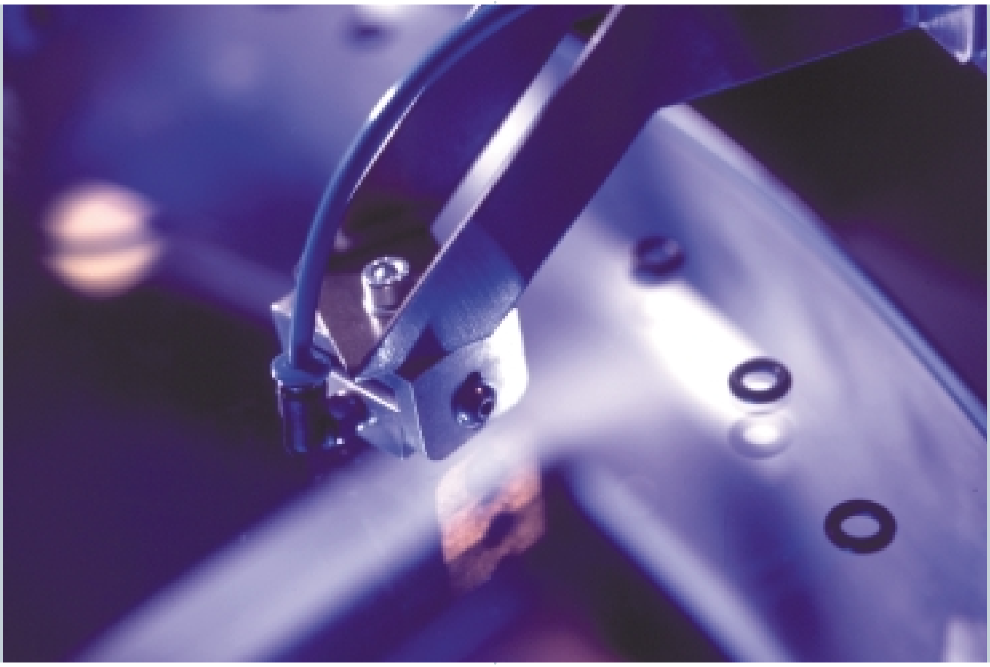
to ensure our continued ability to meet our customers' demands. The certification not only has a positive impact on product quality, but also on internal processes, for instance processing time and our ability to meet delivery deadlines. The improvement of product quality and internal procedures will enable us to reduce the cost of quality considerably. Feedback from other companies has shown that savings can amount to 2-3 per cent of turnover.

How exactly is a standard like this introduced and how do you ensure compliance?

We have precisely defined workflows and processes for all key procedures within our company. Take, for example, product modifications: we have a procedure which defines who takes action, to what extent and how. A valuable added advantage is that this also gives the customer a much higher level of calculability. Another example are the improvements we have made to all our procurement processes and supplier management procedures, i.e. defining who orders what, for which department, from whom and when? The choice and assessment of suppliers has also been reorganized. All of these measures will have a positive impact on our relationship with our suppliers.

Are you thinking in terms of savings?

Naturally; expense is a key consideration when selecting a supplier. However, our main aim is to tighten our supplier relationships and incorporate our suppliers in our processes to a greater extent; in other words, improve our supply chain management, thus also improving the quality of the components and goods we receive. It enables our partners to forecast our demands with a greater degree of accuracy, which in turn enhances our ability to adhere to our



Production has to fulfil customer quality needs consequently

delivery deadlines to our customers. We presently have a delivery performance of 93%. Our aim is to take this to 99%.

Does Basler use the just-in-time principle?

Not yet. We put the necessary structures in place for this last year, but our present focus is far more on customer requirements. We want to be in a position to react swiftly to our customers' needs and be able to provide optimum fulfillment. More and more, we are using the pull approach rather than the push one…

What does that mean?

With the push approach an order sets the entire production process in motion, which is very slow and time-consuming. The pull approach, in contrast, „pulls" the order from what could be termed a lean buffer store, and all subsequent processes, for instance the next assembly job, are controlled by withdrawals. This enables us to reduce delivery times and input dramatically. Our aim is to reduce the delivery time for a standard high-performance camera gradually from 2 weeks to 48 hours in the course of the year by employing this approach, while at the same time also substantially decreasing the input and work involved.

You mentioned a number of improvements that have resulted from the new Quality Management System; what effect will this have on inventories?

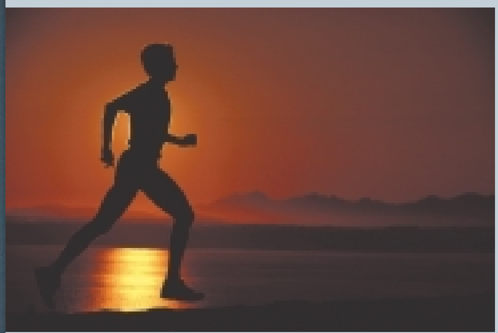
These changes will have a positive impact on our inventories. Last year, we had to write off approx. Euro 4 million for inventories. This was partially the result of the unit cost price trap into which we stumbled in the past few years: delivery contracts covering longer terms and greater quantities give you lower unit prices. But it also greatly increases the depreciation risk, as the market demand for products and individual components constantly changes and evolves. For this reason we now pay far greater attention to quality, the right timeframe and suitable prices in all procurement activities. We now also have greatly improved forecasting data, putting us in a much better position to predict our future needs. This is supported by optimized disposition procedures. We are well prepared for the future.

What does the future hold for Basler's Quality Management System?

Certification was just the first step. Now we must implement and live quality within the company. This is a task that must be tackled by everyone in the company – from the board right down to assemblers in production – and it must be long-term. On no account must we allow ourselves to rest on our laurels: we have to live with the concept of absolute quality 365 days a year.

Dr. Fuß was speaking to Christian Höck

Recordable DVD formats hit the market!



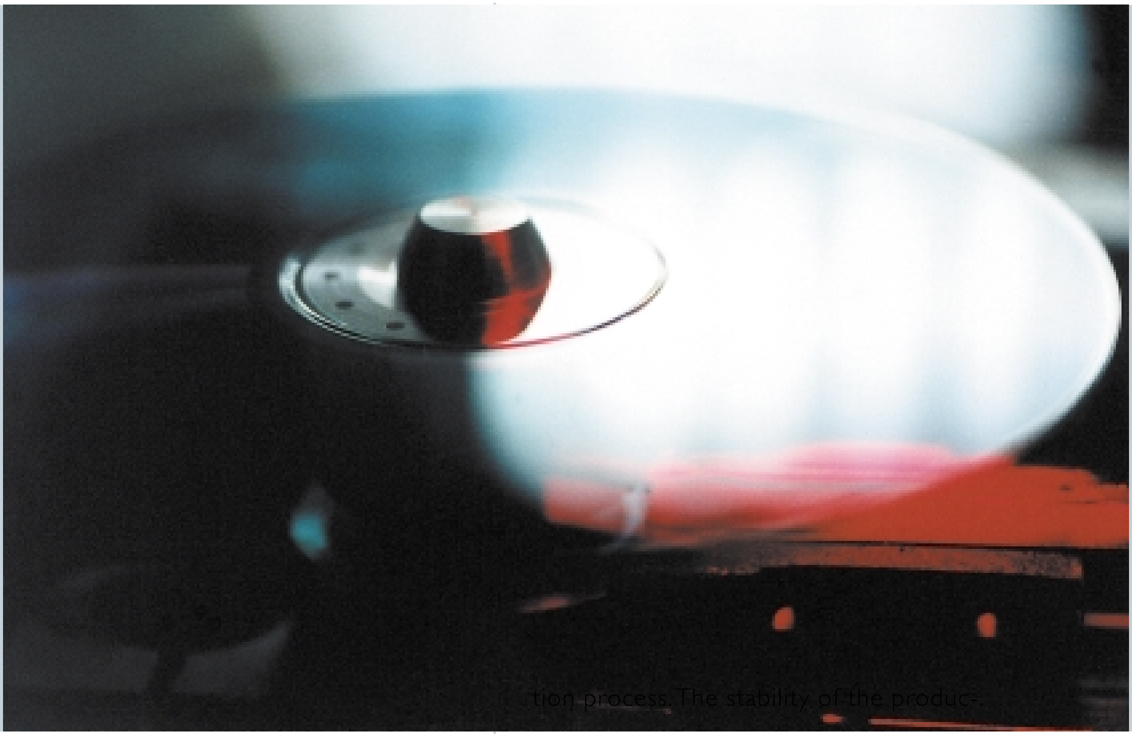
Matthias Hasche
Productmanager
Optical Media
Inspection

Hobby: Running

„Restart" is what running enthusiast Matthias Hasche would like to do after what has been an extremely difficult year for the CD/DVD sector. „We have made the very best of the industry's first real period of retrenchment, which comes after years of growth", emphasizes Hasche. For Basler's largest business unit this meant restructuring, exposing the product portfolio to stringent examination, and adapting the company's product strategy to the altered market conditions.

The business unit's objective remains as clear as glass: Basler aims to underscore the company's comprehensive competence in the field of inspection equipment and provide a full portfolio of advanced products. As well as Print Inspection for optical media and Ident Code Reading, used for packaging machines, the unit makes leading systems for inline CD/DVD quality inspection (Inline Scanners) and sample-based post-production inspection (Offline Scanners). In addition to a basic good/bad result, the data delivered by these systems allow the quality and stability of each production step to be measured. They support optical disc manufacturers in their continuous optimization of the entire production process, thus giving even better control over each production step.

Since mass production of CDs kicked off at the beginning of the 1990s, process optimization has developed dynamically and the effectiveness of the systems is growing exponentially. A key role is played by optical inspection systems, which



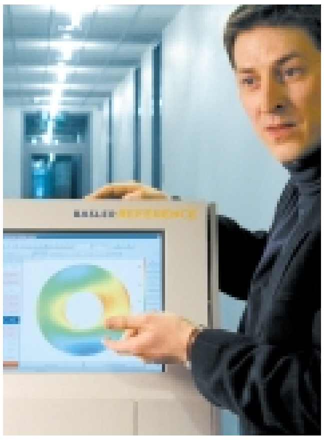
can detect errors in the nanometre range – such as minuscule scratches, injection or pinholes –, and which reject faulty discs. These inspection systems have become part of complex yield management systems: the inspection data are passed back to the machines; process parameters are automatically optimized, thus ultimately avoiding errors in the first place. The result is a reduction in the number of rejects, decreased costs and a boosted margin for each disc produced.

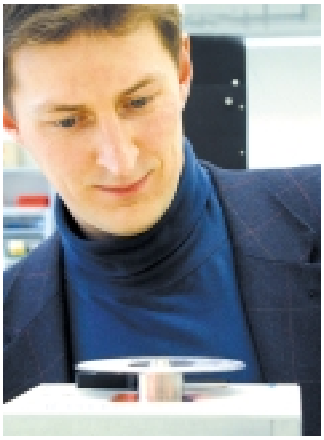
Basler's customers are increasingly demanding machines that are user-friendly and easy to handle. „One Customer expects employees who may have just come from a job in a snack bar to be able to handle these systems within a few hours", is how Hasche describes the current situation in the replication sector.

The tasks that inspection systems are required to perform depend chiefly on the disc format. The most highly developed production processes are those for the replication of pre-recorded CDs (CD Audio/ROM). Here, inspection systems are mainly used to monitor the production process. The stability of the production process for pre-recorded DVDs has increased considerably. However, these multilayer discs are far more complex than a simple CD; 2002 is set to bring further process optimization in this field.

The production and quality inspection of recordable DVD formats (DVD-R, DVD+RW, DVD-RW or DVD-RAM) is a great deal more complex. Even the slightest deviation, for instance the thickness of the layer that contains the information, can be critical, preventing information from being written on to the disc.

Offline testing with Basler REFERENCE





Inline Scanner – new generation

„All the various DVD formats, from prerecorded to write once and multi-recordable discs, are poised on the brink of a massive boom", affirms Hasche, describing the situation for optical media. While the market is presently dominated by DVDs with capacities of 5 GB, 9 GB and 10 GB, even more powerful formats, such as DVD14 and DVD18, are waiting in the wings and will very soon become standard in the film industry. These discs can store many hours of film, background footage and special sequences, e.g. „The Making of...".

Initial market feedback also seems to indicate that the recordable DVD formats (DVD+RW, DVD-RW and DVD-RAM) are just about to experience a major breakthrough. Right now, the cost of the necessary hardware – a DVD recorder – is still too high to generate a significant sales volume. However, the industry is expecting Christmas season 2002 to popularize these formats, and is predicting the foreseeable demise of the video cassette.

This development will have a very positive effect on Basler's business activities, as manufacturers will be compelled to invest either in new production equipment or in upgrading existing facilities. Inspection systems play an elementary role in the increasing level of control over production processes and the rise in production effectiveness for new formats.

„An upswing would benefit our entire product portfolio", explains Hasche. Both disc quality inspection and print inspection are prepared to meet a shift in demand. Pre-recorded media, such as feature film DVDs, are including more colorful print images that use highly sophisticated printing effects. Recordable discs, on the other hand, require high resolution print inspection systems chiefly for black and white. The same applies to Basler's Ident Code Reading product R2: there is an obvious trend away from pure bar code reading and towards character recognition (OCR), with Chinese and Japanese characters playing an increasingly important role. With such sophisticated demands, correct identification has become much more difficult and requires advanced new technologies.

In all areas of CD/DVD manufacturing, production has become an increasingly complex process. To help manufacturers meet these demands Basler provides reliable systems designed for industrial applications. Following a period of retrenchment, the entire sector appears to have become more future-oriented. With such promising prospects, there simply couldn't be a better time to restart!

2001

Data and key facts

CONTENT

Condensed Management Report for Financial Statement and Consolidated Financial Statement of Basler AG

Basler AG is a global leader in Vision Technology – the technology of artificial vision. Vision Technology stands for computer-based Vision Systems which make automated decisions on the basis of visual data. There are already a vast number of applications for Vision Technology and these fields are increasing constantly. Vision Systems are currently predominantly utilized in industrial manufacturing, for instance in automatic quality control, measuring, identification, surveillance and monitoring. These applications are termed Machine Vision. Examples of this technology are to be found in systems that perform such varied functions as the inspection of component placement in electronic goods manufacturing, surface inspection in the production of plastic webs, flat panel displays or wafers, optical character recognition for sorting mail and document scanning, print inspection, in the packaging industry or in sorting waste materials. The main aim in utilizing Vision Technology is to enhance manufacturing effectiveness (Yield Management) and thus lower production costs.

The Vision Technology market

From a supplier's point of view, the Vision Technology market – a young market – can be divided into two main segments:

a) Component manufacturers

- Lighting fixtures, optics, cameras, software, image data processors

b) Systems manufacturers

- Configurable, cross-application vision systems
- application-oriented vision systems
- application-oriented specialized vision solutions

In addition to Machine Vision, the largest and most developed segment, there are a multitude of new, emerging segments in medical technology, traffic control, and especially in consumer-oriented segments, such as security technology and automobile production.

Global development of the Machine Vision market

The global market for Machine Vision products focuses primarily on the highly developed industrial regions: the United States, Europe, Japan, as well as the emerging industrial nations, South Korea and Taiwan. According to statistics published by the American association for the Machine Vision industry, the Automated Imaging Association (AIA), the United States is the largest national market for industrial image processing. One third of global sales in 2001 was generated in the United States. The Asian nations accounted for approx. 40%. Sales in European countries only accounted for a quarter of the sales volume of Machine Vision products.

According to the AIA, the average annual worldwide growth of the Machine Vision market is expected to be at least 10% for the next five years. In the association's most recent market study (published at the beginning of 2001), the AIA anticipates global sales of Machine Vision products worth approx. US $6.0 billion. The slack economic development in 2001, particularly in the USA, was a factor not foreseen in the AIA's forecast; the Machine Vision market is expected to have developed along the lines of the weak economy

By the year 2004, global sales of Machine Vision products will have risen by more than 50% to US $8.3 billion. The United States and Europe are expected to display the highest growth rates. The current global structure of the market will remain largely unchanged.

The market for Vision Technology can be divided into numerous industry-specific segments. According to a current study by the German Engineering Federation (VDMA), the market for Machine Vision products in Germany is structured as follows

Market structure in Germany, by customer sectors

- Electronics 20.8%
- Automotive 17.2%

- Metal processing 8.5%
- Pharmaceuticals and medical technology 6.6%
- Plastics 5.9%
- Traffic and transport 5%
- Semiconductors, computers 4.6%
- Packaging 4%
- Glass and ceramics 3.2%
- Textiles, clothing 3.1%
- Printing 2%
- Others 15.6%

(Source: VDMA 2001)

Only approximately 20-25% of all known industrial applications for Vision Technology have been developed so far. New applications are emerging day by day and existing markets will continue to grow. The market for Vision Technology still has a vast growth potential.

Basler's Vision Systems business unit presently addresses the following target markets:

- Optical Media industry
- Rubber / Elastomer industry
- Electronics / Display industry
- Plastics industry

Additionally, Basler's Vision Components business unit also develops and distributes standardized components for Vision Technology, thus supplying the needs of a wide variety of other sectors.

The products made by Basler Group currently address a global market volume of approx. Euro 800 million.

Vision – Mission – Strategy

Basler believes that in future there will be intelligent machines in all areas of our lives. The company's mission is to make these intelligent machines see.

A multitude of emerging technological trends provide the basis for the fulfillment of this mission in the foreseeable future:

a) The output of microprocessors and image sensors doubles approx. every 18 months.

b) Higher levels of integration are creating progressively powerful components with smaller dimensions and lower cost prices.

c) Increasingly powerful algorithms can solve more complex tasks.

The rapid development of core technologies means that there is an increasing demand for technical systems that are capable of emulating human faculties, foremostly vision, which is without a doubt the most important channel of perception that human beings possess.

As we come closer and closer to the goal of implementing human vision through highly advanced technology, the vast potential that these artificial vision systems have in industrial and consumer applications is unfolding rapidly. Basler's vision, mission and strategy follow this logic.

Basler Group currently focuses on industrial applications of Vision Technology in selected international growth markets. Basler establishes and secures market leadership through technologically leading products which are rigorously oriented to the needs and demands of customers and markets.

The Group's strategy is to supply Vision Technology in the form of components, systems and services to diverse, independently evolving Vision Technology markets all around the world. This approach enables the Group to consolidate growth potential, while at the same time reducing risks.

Basler Group Operational Review for the year ended December 31, 2001

Revenues marked by poor investment climate in the Optical Media industry

In the year ended December 31, 2001, the consolidated revenues of the Basler Group totaled Euro 26.6 million (Basler AG: Euro 24.2 million). This is a decrease of 34% compared with financial year 2000 (Basler AG: 32%).

The declining revenues of Basler Group are chiefly the result of the strong global investment slump in production plants for optical media. Revenues in the Optical Media Inspection business unit declined by approx. 50% compared with last year. The drop in investment in production plants for recordable CDs (CD-Rs), which began in the second half of 2000, continued throughout 2001, leaving the market weak. This was compounded by a considerable deterioration in investment in production plants for pre-recorded DVDs. New formats, such as write-once and read-write DVDs (DVD-R and DVD-RW), have not yet succeeded in fully capturing the market on a wide-scale basis, meaning that significant investment in these formats cannot be expected until sometime in the next few years.

The strong dependency of the consolidated earnings on sales of systems for optical media is expected to decrease in 2002; the growth of the Group's Vision Components and Display Inspection activities is projected to accelerate under the present business plan, thus increasing their contribution to Group revenues.

Sales shift to Europe and Asia

Basler Group continued to pursue a global strategy in 2001: 23% of sales were generated in Germany, 19% in remaining Europe and 58% in the rest of the world

Sales subject to the customary seasonal fluctuations

The development of sales in the four quarters of the year under review was in line with the customary seasonal fluctuations of the market for optical media, with weaker first and forth quarters and stronger second and third quarters. In Q1, sales were Euro 7.0 million (Basler AG: Euro 6.8 million), rising to Euro 7.6 million (Basler AG: Euro 6.8 million) in Q2. Sales in Q3 were Euro 6.8 million (Basler AG: Euro 6.1 million) and Euro 5.2 million (Basler AG: Euro 4.5 million) in Q4.

More evenly spread customer base

2001 saw a continuation of the even spread in customer structure achieved in 2000. The largest individual customer accounted for 11% of sales in 2001. The largest three customers accounted for almost 22% of sales in the year under review (2000: 26%); while the largest ten customers accounted for 41% (2000: 41%). In 2001, Basler succeeded in further reducing the Group's dependency on individual customers.

Incoming orders mirrors sales development

The consolidated incoming orders developed in line with sales. In Q1, orders worth Euro 7.3 million (2000: Euro 13.3 million) were reported, rising to Euro 7.7 million (2000: Euro 10.3 million) in Q2. In Q3, orders went down to Euro 4.1 million (2000: Euro 8.0 million). As at December 31, 2001, orders for Q4 were Euro 3.8 million (2000: Euro 7.1 million), heralding a weak start to the year 2002. In total, orders worth Euro 22.9 million (2000: Euro 38.6 million) were reported for 2001.

Drop in sales leaves its mark on Group income

The loss made in 2001 is largely the result of the substantial drop in sales revenues in the Optical Media Inspection business unit, as well as the result of several exceptional items. Once it became apparent that sales would not revive again, expenditure was adjusted in the course of the year to reflect the lower sales volume. The plans introduced included measures to reduce staff expenditure by Euro 2 million, of which Euro 1 million became effective in 2001. A series of other cost cutting measures has enabled the Group to reduce operating expenses to Euro 24.3 million, which is Euro 3.8 million below last year's level of Euro 28.1 million.

Several exceptional items have also had a negative impact on the consolidated financial result.

The assets of the US company Photobit Corporation, in which Basler held a stake since 1999, were sold to Micron Technology, Inc. in December 2001 under the terms of an asset deal. The proceeds of this deal for Basler Group amounted to Euro 7.3 million. The dramatic drop in the stock market valuation of businesses in the semiconductor sector has substantiated the value adjustment of Euro 7.6 million to the going value which was made for the third quarter.

Additionally, long-term supply contracts in conjunction with lower sales and capacities accumulated last year led to surplus stocks, which necessitated a depreciation amounting to Euro 3.6 million.

Basler AG result was further decreased by an exceptional item amounting to Euro 1.5 million. Provisions for anticipated losses presented by the existing long-term lease on the company's head office and production plant in Ahrensburg amounted to Euro 1.5 million. The anticipated loss encompasses the fact that the building may not be fully utilized over the next few years should the company's present situation remain unaltered.

These provisions are not recognized under the terms of U.S. GAAP. They are only reflected in the HGB (German Commercial Code) financial statements.

The Group's earnings before interest and tax (EBIT) in the year under review were Euro -12.6 million (Basler AG: Euro -13.3 million), compared with 2000 in which the Group EBIT was Euro -3.3 million (Basler AG: Euro -4.1 million). After interest, non-scheduled depreciation of financial assets, and tax, the Group incurred a loss of Euro -20.6 million (Basler AG: Euro -21.3 million), compared with Euro -1.6 million in 2000 (Basler AG: Euro -3.7 million).

The development of the Group's earnings puts a severe strain on the company's liquidity in the third quarter. Consistently stringent receivables management and the immediate introduction of a number of cost cutting measures enabled the company to generate liquidity. Operative losses with an impact on cash flow were compensated for by subordinated shareholders loans. The measures put in place convinced the company's banks to continue the lines of credit extended to Basler. This, together with the proceeds generated by the sale of Basler's stake in Photobit, gives the Group a viable financial basis for 2002.

Lower balance sheet total

With a balance sheet total for 2001 of Euro 21.9 million (2000: Euro 40.0 million), a key item in the financial assets column of the balance sheet is the income from the asset deal with Micron Technology, Inc.. The sale of all assets held by Photobit Corporation yielded revenue of Euro 7.3 million for Basler Group. The technological development cooperations and projects set up with Photobit Corporation in 1999 are to be continued with Micron for a period of at least two more years.

Basler Group trade receivables have been decreased by 18% from Euro 4.8 million to Euro 4.0 million with the aid of an improved receivables management program.

The disappointing development of fiscal year 2001, with high operative losses and valuation adjustments, has decreased the Group's equity ratio from 74% in 2000 to 41% in the year under review. The Euro 22.3 million capital reserve represents the greatest part of this equity, followed by share capital of Euro 3.5 million. Liabilities to banks amounting to Euro 4.5 million (Euro 4.4 million in 2000). They are offset by bank balances of Euro 4.6 million (Euro 1.8 million in 2000).

An optimized procurement structure

In the year under review the situation on the supply markets eased up considerably compared with the previous year. This applies particularly to the market for electronic components. The aim of all procurement activities in 2001 was to adjust existing supply and framework contracts to cover weaker sales, and to purge excess inventories. A number of strategic alliances were set up to reduce delivery times. The Group's own ability to supply swiftly and consistently is to be increased with the aid of improved supply chain management.

In 2001, the Group's largest supplier was responsible for 11% of procurement volume; the ten largest suppliers accounted for 44% of all goods procured.

Stringent focus on the ability to innovate

Technical innovations and developments are essential for a company that is active in strongly technology-driven markets. In the year under review, Research and Development was again the target of the major proportion of investments. The business units Vision Systems and Vision Components each had a specific focus:

In the Vision Systems corporate unit the company's Optical Media Inspection unit succeeded in defending its position as joint market leader for optical inspection despite the industry-wide slump in demand for optical media production equipment. The focus of R&D activities was on the completion of product development of the Basler REFERENCE, an offline system for the sample based functional inspection of optical media, which rounds off the company's product portfolio for this sector. The Basler product lines Basler S3 (inline inspection), Basler REFERENCE (offline inspection), Basler L4 (print inspection) and Basler R2 (ident code reading) form a seamless portfolio of advanced solutions for the inspection of optical media during production.

The Display Inspection business unit attained a further development milestone in the year under review. Following the introduction of the Basler SENSIC GSI (Glass Substrate Inspection) system for the inspection of bare or ITO (Indium Tin Oxide) coated glass substrates in 2000, the company presented Basler SENSIC CFI (Color Filter Inspection) in 2001. This new product for the inspection of color filters on glass substrates puts Basler in a position to supply a further core application for the optical inspection of flat panel displays during production. Systems incorporating the new products have been installed and are running successfully.

In 2001, Sealing Inspection focused on launch of the new product, Basler INLINE, and the integration of new inspection functions in the existing product portfolio. The Basler INLINE is a new inline inspection solution for the production of sealing rings, which extends the existing range of offline products.

For the Web Inspection business unit, 2001 was dominated by the market launch of the new product line, Basler WEBSIGHT. Initial pilot orders were acquired and have been successfully installed.

Throughout 2001, the Vision Components company unit launched a wide range of innovative products. The existing line and area cameras in the product series L100, L200 and L300, and A100, A200 and A300 were further perfected. The focus of activities in the year under review was on the introduction of a range of completely new products, including the new A500 series of area scan cameras, which can take up to 500 frames per second and was developed for use in high speed applications. This new product family is the first to incorporate the very latest CMOS image sensors, and it represents the first fruits of the strategic alliance with Photobit Corporation.

In 2001, Basler introduced several new interface technologies for digital cameras, including the IEEE 1394 standard used in consumer electronics. Together with Sony, Basler is at the vanguard of this technology.

Consolidated Group expenditure for R&D in 2001 amounted to Euro 7.5 million, bringing the R&D ratio up to 28%, which is well above the industry average. (2000: 20%).

Patents secure Basler's innovative developments and are an essential part of the company's technological strategy. As at December 31, 2001, Basler held 12 patents (some worldwide), with a further 11 pending, in addition to 2 registered designs („miniature patents").

HR development remains a central issue, despite cost cutting

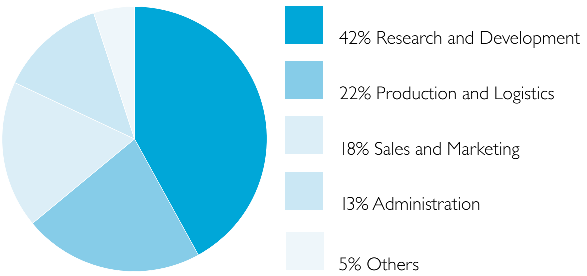
The unforeseen weak development of sales in 2001 forced the company to reduce personnel expenditure considerably. Just over one third of the required savings were effected by the introduction of part-time solutions and the renunciation by all staff of salary increases in January 2002 as a gesture of solidarity. Nevertheless, the company's situation necessitated 18 redundancies in accordance with the social criteria for terminations.

As of December 31, 2001, Basler had 259 employees (Basler AG: 234 employees). The average number of employees for the year was 286 (Basler AG: 256 employees). The average age of Basler employees in 2001 was 34.2 years.

As of December 31, 2001, the largest proportion of staff was employed in Research & Development (42%), followed by Production and Logistics at 22%, Sales and Marketing with 18%, and Administration at 13% (remaining areas: 5%). The proportion of female employees at the end of 2001 was 25%. As of December 31, 2001, 234 members of staff were employed at the Ahrensburg site, 14 in the USA, 6 in Singapore and 5 in Taiwan.

In the field of personnel development, the company continued to utilize the methods and tools introduced in the previous year. Employees meet with their superiors for an individual annual performance and development review, during which immediate and medium-term training needs are identified, and the necessary measures are determined. This approach enables employees to benefit from targeted, sustained development. Training measures are provided by external partners and internal trainers, who are currently being trained under a

Staff by tasks 2001



train-the-trainer scheme. In 2001, the focus of all HR development activities was on establishing and consolidating skills in project and product management, business management and communication. Additionally, management received training in year-round programs specifically developed for the company.

Basler currently employs 6 trainees, in addition to 3 students from the Academy of Business Management.

Positioning through marketing

Marketing and Sales activities were stepped up significantly in the year under review. Consolidated Group expenditure in 2001 for this was Euro 7.2 million, or 27% of turnover. The company's sales activities were supported by a comprehensive mix of marketing and communications activities, including adverts, trade show presentations, mailing campaigns and newsletters. The focus was on product launches in the corporate units and positioning the company in new markets.

Focus on the environment

Basler is seriously committed to protecting the environment. In the year under review, the company's efforts in this field included the incorporation of a water-efficient system in the new extension which ensures that water is used consciously.

The new building was constructed using only environmentally friendly materials, including halon and chlorofluorocarbon free cables for the 300 km cable network. Basler's waste management and disposal program is based on the strict separation of reusable materials into plastics, bio-waste, cardboard and paper, batteries. Hazardous materials are disposed of by experts.

Protected against risks

Market and industry risks

The main market risk lies in the question as to whether the weak global economy in 2001 is likely to recover in 2002, and if so then to what extent. Recovery would stimulate the technology markets and thus also improve market conditions for Basler Group.

The largest single industry risk for Basler Group lies in the development of the market for production systems to manufacture optical media, following the loss of almost half the volume of this market in 2001. The development of the supplier market for the semiconductor and electronics industry is also of outstanding importance for the further development of Basler's components business. In contrast, the market for flat-panel displays, which has over the past years developed very satisfactorily, has a relatively low risk of weak development. In the past, growth of the rubber / elastomer and the plastics industries has been subject to fairly low fluctuation, meaning that the risks in this field are limited.

Management and Sales utilize predictions compiled by industry associations, market research institutes and capital market analysts to assess the company's target markets. Additionally, regular meetings are held with customers in order to forecast impending changes on the market well in advance of their occurrence.

When setting up new business units, market entry barriers present an additional market risk, which in many instances only becomes noticeable once market penetration has been initiated. These risks are reduced to as low a level as possible with the aid of in-depth research activities and pilot projects.

Corporate strategy risks

Basler's corporate strategy is completely focused on penetrating the growth market of Vision Technology. The risk presented by this strategy is that several or all of the company's business activities could become simultaneously obsolete should a technology change occur. An extension of business activities towards exploiting a value chain would reduce this risk, but would necessitate a stronger split of Basler's core competencies, bringing with it the risk of defocusing. Experts are unanimous that Vision Technology has a vast potential and that there is no alternative to this technology in sight. Accordingly, the risks inherent in the corporate strategy can be considered to be fairly limited.

Performance, financial and economic risks

Should Basler Group not succeed in implementing turnaround in fiscal 2002 then appropriate cost-cutting measures will have to be taken. Depending on their scope, these measures could impact the Group's future revenues potential. Should turnaround take longer than anticipated then it may be necessary to provide additional capital to bridge this period of operative losses.

All operating risks are closely monitored with the aid of an advanced financial and management information system. The tools utilized include a 52-week rolling sales, revenue and financial plan for all business areas, comprehensive monthly reporting for all cost centers and a business figures system that gives greater detail than that used in previous years.

In light of Basler Group's high proportion of exports the development of exchange rates presents a significant individual risk, in particular the exchange rate of the euro to the US dollar. To limit such risks the Group uses specific measures to protect the company against exposure to currency risk in all large deals drawn up in a foreign currency.

Staff risks

Should Basler Group's markets develop much better than anticipated then the Group could experience staffing shortages in order processing. This risk can be countered by the specific identification of outsourcing potential, as well as by the employment of outside and temporary staff.

Well prepared to face the new year

Basler Group has used the difficult fiscal year 2001 to implement significant improvements to the Group's cost structures and processes, thus putting us in a good position to face the challenges of the new fiscal year 2002.

A major objective of the board for 2002 is to lead the company back into the profit zone with a successful turnaround. The board aims to increase sales by a low double digit percentage and generate a profit for the company.

Growth impulses are expected to come primarily from the business units Display Inspection and Vision Components, while sales revenues in the divisions Optical Media Inspection and Sealing Inspection will probably remain steady at last year's level.

Strict cost management in conjunction with improved control tools and additional sources of income, e.g. revenues generated by subletting sections of the main office, will help to ensure that the company ceases to operate at a loss.

With the Group's targeted business development the number of employees will remain stable, as will the employee structure with its focus on Research & Development and Sales & Marketing.

Basler has used fiscal 2001 to make the company fit for the future. In light of the forecast recovery of customer markets, Vision Technology – the technology of artificial vision – again offers Basler attractive growth potential for the next few years. As Germany's largest Vision Technology enterprise, Basler aims to shape this market decisively.

Ahrensburg, February 2002

The Management Board

Basler AG

Dr. Dietmar Ley

Axel Dancker

Peter Krumhoff

Consolidated Statements of Operations 2001*
(US-GAAP)
(in thousand Euro; exept shares and earnings per share)

	2001	2000
SALES	**26.621**	**40.322**
Cost of sales	-15.476	-16.154
Gross profit	11.145	24.168
Operating expenses		
Research and development	-7.500	-7.850
Selling and marketing expenses	-7.184	-10.259
General and administrative expenses	-9.570	-10.016
Total Operating expenses	-24.254	-28.125
OPERATING LOSS	**-13.109**	**-3.957**
Interest income	30	126
Interest expenses	-557	-107
Other income	465	660
Impairment of investments	-7.614	0
LOSS BEFORE INCOME TAXES	**-20.785**	**-3.278**
Income tax	217	1.633
NET LOSS	**-20.568**	**-1.645**
Weighted average number of shares (basic)	3.500.000	3.500.000
Weighted average number of shares (diluted)		
authorized capital	1.750.000	1.750.000
conditional capital	350.000	350.000
net loss per share	-5,9	-0,5

* The 2000 accounts have been restated from Deutsche Marks into Euros at an exchange rate of DM 1.95583 to Euro 1, the fixed exchange rate of January 1, 1999.
The accompanying notes are an integral part of the consolidated statement.

Consolidated Cash Flow Statements (US-GAAP)*

(in thousand Euro)

	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	-20.568	-1.645
Impairment of investments	7.614	0
Depreciation of fixed assets and intangible assets	1.219	1.030
Gains on disposal of equipment	-4	-6
changes in:		
Inventories	3.335	-696
Trade Accounts receivable	869	524
Accrued liabilities	-100	730
Other Current Assets and prepaid expenses	1.339	-746
Deferred tax asset	-42	-1.471
Accumulated exchange rate differences	52	-96
Notes payable to shareholders	38	0
Advanced payments received	-806	467
Trade Accounts payable	-540	345
Other current liabilities	-253	-646
Net cash from operating activities	**-7.847**	**-2.210**
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of equipment	233	60
Purchase of equipment	-911	-1.924
Cash received by asset deal regarding Photobit Corporation	7.273	0
Acquisition of Photobit Corporation	0	-3.536
Net cash from investing activities	**6.595**	**-5.400**
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in cash received by bank loan	2.247	4.474
Increase in cash received by shareholder's loan	4.090	0
Re-payment of bank loan	-2.257	-143
Net cash from financing activities	**4.080**	**4.331**
NET CHANGE IN CASH	**2.828**	**-3.279**
Cash, beginning of year	1.805	5.084
Cash, end of year	**4.633**	**1.805**
additional notes		
payments for:		
interests	557	107
income tax	-217	-185

* The 2000 accounts have been restated from Deutsche Marks into Euros at an exchange rate of DM 1.95583 to Euro 1, the fixed exchange rate of January 1, 1999.
The accompanying notes are an integral part of the consolidated statement.

Consolidated Balance Sheet as of December 31, 2001* (US-GAAP)

Assets

(in thousand Euro)

	31.12.2001	31.12. 2000
CURRENT ASSETS		
Cash	4.633	1.805
Trade accounts receivable, net	3.976	4.844
Inventories		
Finished goods and commodities	1.128	1.149
Work in process	1.833	2.017
Raw materials and supplies	4.607	7.737
Total inventories	**7.568**	**10.903**
Other current Assets and prepaid expenses	638	1.977
TOTAL CURRENT ASSETS	**16.815**	**19.529**
PROPERTY AND EQUIPMENT		
Technical equipment and IT	2.537	2.210
Fixtures, fittings, tools and equipment	3.436	3.386
Accumulated Depreciation	-2.922	-2.150
TOTAL PROPERTY AND EQUIPMENT	**3.051**	**3.446**
INTANGIBLE ASSETS		
Software and licences	1.050	945
Accumulated Depreciation	-532	-284
TOTAL INTANGIBLE ASSETS	**518**	**661**
INVESTMENTS	**0**	**14.887**
DEFERRED TAX ASSET	**1.478**	**1.436**
TOTAL ASSETS	**21.862**	**39.959**

* The 2000 accounts have been restated from Deutsche Marks into Euros at an exchange rate of DM 1.95583 to Euro 1, the fixed exchange rate of January 1, 1999.
The accompanying notes are an integral part of the consolidated statement.

Consolidated Balance Sheet as of December 31, 2001* (US-GAAP)
Liabilities and Shareholder's Equity

(in thousand Euro)

	31.12.2001	31.12. 2000
CURRENT LIABILITIES		
Notes payable to shareholders	4.128	0
Short term liabilities to banks	4.464	4.346
Trade accounts payable	650	1.207
Advanced payments received	1.264	2.070
Accrued expenses	1.794	1.894
Other current liabilities	510	746
TOTAL CURRENT LIABILITIES	**12.810**	**10.263**
LONG-TERM DEBT	**0**	**128**
TOTAL LIABILITIES	**12.810**	**10.391**
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY		
Common stock	3.500	3.500
Additional paid-in capital	22.299	25.711
Accumulated deficit/retained earnings	-16.598	558
Accumulated foreign currency translation adjustment	-149	-201
	9.052	**29.568**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**21.862**	**39.959**

* The 2000 accounts have been restated from Deutsche Marks into Euros at an exchange rate of DM 1.95583 to Euro 1, the fixed exchange rate of January 1, 1999.
The accompanying notes are an integral part of the consolidated statement.

Consolidated Statement of changes in shareholder's equity as of 31.12.2001

(in thousand Euro)

	Authorized capital	Conditional capital	Number of shares	Common stock	Additional paid in capital	Accum. deficit/ retained earnings	Foreign currency translation adjustment	Consolid. share-holder's equity	Compre-hensive Income
Balance, January 1, 2000	1.750	350	3.500	3.500	25.711	2.203	-105	31.309	
Net loss						-1.645		-1.645	-1.645
Foreign currency translation adjustment							-96	-96	-96
Comprehensive Income								0	-1.741
Balance, December 31, 2000	1.750	350	3.500	3.500	25.711	558	-201	29.568	
Net loss						-20.568		-20.568	-20.568
Transfer from capital reserve					-3.412	3.412		0	
Foreign currency translation adjustment							52	52	52
Comprehensive Income								0	-20.516
Balance, December 31, 2001	1.750	350	3.500	3.500	22.299	-16.598	-149	9.052	

1. Organization and Operations of the Company

Basler AG (the „Company" or „Basler") develops, manufactures and distributes vision technology – the technology of artificial vision. The systems and components for quality assurance are playing a key role in the optimization of industrial production processes.

The corporation operates in five different markets: The CD/DVD industry, the rubber and elastomer industry, the flat screen industry, the plastic foils industry and the machine vision components industry. The Company has subsidiaries in the US (Basler Inc.), Taiwan (Basler Vision Technologies Inc.) and Singapore (Basler Asia Ltd.). Basler generates besides domestic sales mainly revenues outbound (USA and Asian). Important customers are from industrial segments.

Since March 23, 1999, Basler has been listed at the Neuer Markt segment of the Frankfurt Stock Exchange.

2. Summary of significant accounting policies

Base of presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with United States generally accepted accounting principles („U.S. GAAP").

The Company maintains its financial records in accordance with the German Commercial Code, which represents accounting principles generally accepted in Germany („German GAAP"). Generally accepted accounting principles in Germany vary in certain significant respects from U.S. GAAP. Accordingly, the Company has recorded certain adjustments in order that these financial statements are in accordance with U.S. GAAP.

The accompanying consolidated financial statements are stated in thousands of Euro (Euro K). The Company changed its reporting currency from Deutsche Mark to Euro effective January 1, 2001. Accordingly, the financial statements presented for periods ending after January 1, 2001 are stated in Euro. The financial statements for periods ended prior to January 1, 2001 have been restated from Deutsche Mark into Euro at an exchange rate of DM 1.95583 to Euro 1, the fixed exchange rate of January 1, 1999. The comparative financial statements reported in Euro depict the same trends as would have been presented if the company had continued to present financial statements in the currency that was previously used. The financial statements for periods prior to January 1, 1999 will not be comparable to the financial statements of other companies that report in Euro and that restated amounts from a different currency than the one previously used by the company.

Consolidation Methods

The consolidated financial statements include the annual financial statements of Basler AG and its fully consolidated subsidiaries. All intragroup transactions have been eliminated in the course of consolidation. In the course of debt consolidation, intragroup accounts receivable and liabilities have been eliminated in the consolidated financial statements as well as intermediate results and intragroup income and expenses. Income tax effects are taken into account and deferred taxes are recognized in the consolidation procedures relating to revenue results.

The consolidated financial statements and the financial statements of the subsidiary companies included are prepared as of December 31, 2001, the closing date for the parent company's financial statements.

Valuation adjustments made for tax reasons are not reflected in the consolidated financial statements. The accounting and valuation methods applied did not change as compared to the prior year.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of the Company's operations outside of Germany is the local country's currency. Consequently, assets and liabilities of operations outside Germany are translated into Euro using exchange rates at the end of each reporting period. Revenues and expenses are translated at the average exchange rates prevailing during the period. Cumulative translation gains and losses are reported as a separate component of shareholder's equity.

Transactions in foreign currencies are translated at the rate of exchange in effect at the date of the transaction. Foreign currency transaction gains of Euro 136 k and Euro 600 k and losses of Euro124 k and Euro 470 k for the year ended December 31, 2001 and 2000, respectively, from the change of exchange rates are recognized in the consolidated financial statement of operations and are included in general and administratives expenses of the respective periods.

The exchange rates of the currencies of the European Monetary Union member states used in the consolidated financial statements as of December 31, 2001 and 2000 correspond to the fixed Euro conversion rates. The exchange rates of other significant currencies underlying the consolidated financial statements are as follows:

	Euro exchange rates at	
	31.12.2001	31.12.2000
1 US-Dollar	1.1338	1.0894
1 Shanghai-Dollar	0.6122	0.6297
1 New Taiwan-Dollar	0.0332	-

Cash

Cash consists of cash on hand and cash accounts at bank.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company performs ongoing credit evaluations of its customer's financial condition and the risk with respect to trade receivables is further mitigated by the fact that the Company 's customer base is diversified.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash, accounts receivable, accounts payable and long-term debt approximate their fair values. All balances within accounts receivable are due within one year.

Property and Equipment

Property and equipment are stated at cost. Assets are depreciated over an estimated useful life (3 until 5 years for technical equipment and IT and 10 years for fixtures, fittings, tools and equipment) using the straight line method. Cost either comprise of acquisition or cost of conversion including all direct and indirect costs. Cost includes major expenditures and replacements which extend useful lives or increase capacity; maintenance and repair costs are expensed as incurred. For all periods presented, interest costs allocable to these projects have been insignificant and have not been capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the appropriate accounts. Any gains or losses on disposition of such assets are recorded as other income or expense. Fully depreciated assets are retained in tangible fixed assets and depreciation accounts until they are removed from service.

Intangible Assets

Software and licences are stated at cost and are depreciated over an estimated useful life (3 to 4 years) using the straight line method. Fully depreciated assets are retained in software and licences assets and depreciation accounts until they are removed.

Long-lived Assets

The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS No.121, „Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Company will compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Company will record impairment losses to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to generated from the assets. During the years ended December 31, 2000 and 2001, management believes that no such impairments exist.

Investments

Investments represent shares in a non public company. They are accounted for at cost subject to impairment (note 5).

Allowance for doubtful accounts

Management regularly assesses realisation of accounts receivable and an allowance for doubtful accounts is provided. In 2001 two debtors filed for bankruptcy. For this reason Basler made a provision of of Euro 0 k and 191 k in 2000 and 2001, respectively.

All accounts receivables are plegded to NordLB.

Inventories

Inventories consist of raw materials, work in process and finished goods. Inventories are shown at the lower of cost or market. Actual cost, using the weighted average method, is used to recognize raw materials. Manufacturing cost is used to value finished goods and work in process. Manufacturing cost includes direct labor, raw materials and manufacturing overhead. Obsolete, damaged and excess inventories are carried at the lower of cost or net selling prices.

All inventories are plegded to NordLB.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses of Euro 1,200 k and Euro 832 k were included with marketing expenses for 2000 and 2001, respectively.

Revenue Recognition

Revenues are mainly generated through sales of finished products. These are vision inspection systems and vision components.

Revenues by vision components are recognized when persuasive evidence of an arrangement exists, delivery of the products has occured, the price for the transaction is fixed and determinable, and collectability is reasonable assured. Revenues are recognized net of sales incentives such as discounts, customer bonuses and rebates granted. Sales incentives are recognized as a reduction of revenue at the date at which the related revenue is recorded.

Contracts by vision inspection systems consists of the delivery of a specific systems and of installation for services. According to General Terms and Conditions of Basler transfer of risk of loss is at delivery date ex works. Delivery takes place after final acceptance by customer. For installation a separate acceptance is agreed upon. Revenues are recognized when persuasive evidence of an arrangement exists, delivery of the products has occured, installation is completed, respectively, the price for the transaction is fixed and determinable, and collectability is reasonable assured. Revenues are recognized net of sales incentives such as discounts, customer bonuses and rebates granted. Sales incentives are recognized as a reduction of revenue at the date at which the related revenue is recorded.

Costs for warranty and similar constructive obligations are provided for. Handling costs are shown within the selling expenses.

Earnings Per Share

Basic net loss per common share is presented in conformity with SFAS No.128 „Earnings Per Share" for all periods presented. Basic net loss per share is computed using the weighted-average number of vested outstanding shares of common stock. Diluted net loss per share is computed using the weighted-average number of vested shares of common stock outstanding and, when dilutive, unvested common stock outstanding, potential common shares from options and warrants, convertible debt and contingently issuable shares. Since dilution would result in a decrease in loss per share in 2000 and 2001 only basic earnings per share is reported.

Stock Options

The Company accounts for stock-based awards to employees using the intrinsic value method prescribed in APB 25, „Accounting for Stock Issued to Employees". Compensation cost for stock options granted to employees is measured as the excess of the quoted market price of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock (the „intrinsic value"), and is recognized over the vesting period. The intrinsic value of the options for which the measurement date has not been reached is measured on the basis of the current market value of the Company's stock at the end of each period.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board authorized the issuance of SFAS No. 141, „Business Combinations" and SFAS No. 142, „Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 142 requires intangible assets to be recognized if they arise from contractual or legal rights or are „separable", i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 142 than its predecessor, APB Opinion No.16, although in some instances previously recognized intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, „Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with Accounting Principles Board Opinion No. 18, „The Equity Method of Accounting for Investments in Common Stock". Under SFAS No. 142 intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortized. On adoption the Company may need to record a cumulative effect adjustment to reflect the impairment of previously recognized intangible assets. In addition, goodwill on prior business combinations will cease to be amortized. Had the Company adopted SFAS No. 142 on January 1, 2000 the Company would not have recorded a goodwill amortization charge of DM 69,231. The Company has not determined the impact that these Statements will have on intangible assets or whether a cumulative effect adjustment will be required upon adoption.

The Company adopted SFAS 142 on January 1, 2002 and does not anticipate that the adoption of SFAS 142 will have a material impact on its results of operations, financial position or cash flow.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS 143). SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including (1) the timing of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability and (5) financial statement disclosures. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the life of the associated fixed asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS 143 is effective for fiscal years beginning after June 15, 2002, with early application encouraged.

The Company will adopt SFAS 143 on January 1, 2002, however it does not anticipate that adoption of SFAS 143 will have an impact on its results of operations, its financial position or its cash flows.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. While it supersedes portions of APB Opinion 30, Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, it retains the discontinued operations presentation, yet it broadens that presentation to include a component of an entity (rather than a segment of a business). However, discontinued operations are no longer recorded at net realizable value and future operating losses are no longer recognized before they occur. SFAS 144 also establishes criteria for determining when an asset should be treated as held for sale.

SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. The provisions of SFAS 144 are generally to be applied prospectively.

The Company expects to adopt SFAS 144 on January 1, 2002 and has yet not determined the impact that it will have on its results of operations, financial position or cash flows.

SFAS 133 Accounting for Derivative Instruments and Hedging Activities is not relevant for the company due to the fact that no financial instruments are applied.

3. Other current assets and expenses

Prepaid expenses and other current assets consisted of the following (in thousands Euro):

	Year Ended December 31	
	2000	**2001**
Tax office receivable	292	795
Trade show prepayments	165	1.037
Prepaid expenses	76	51
Other	105	94
	638	**1.977**

4. Property and Equipment

Property and equipment consists of the following (in thousands Euro):

	2000	Additions	Disposals	2001
Technical equipment and IT	2.210	429	102	2.537
Fixtures, fittings, tools and equipment	3.386	367	317	3.436
Subtotal	5.596	796	419	5.973
Accumulated depreciation	2.150	972	200	2.922
Property and equipment, net	3.446	176	219	3.051

5. Investments

In 1999 Basler acquired 14.7% of the shares in Photobit Corporation, Pasadena/USA for acquisition cost of Euro 11.351 k. In 2000 Photobit increased its capital by shareholder contributions. Accordingly, Basler contributed Euro 3.536 k without increasing its interest in voting rights (Euro 3,536 k). In 2001 the American semiconductor manufacturer, Micron Technology, Inc., acquired substantially all of the assets and certain liabilities of Photobit Corp.

The cash received by Basler by this asset deal amounts up to Euro 7,273 k. Due to the sale of whole business Photobit cannot generate any future cash flows. Accordingly, an impairment charge of Euro 7.614 k representing the carrying amount subsequent to the dividend distribution was incurred.

6. Accrued and other current liabilities

Accrued liabilities are mainly capitalized for outstanding costs in economic connection with recognized revenues and for warranties.

Other current liabilities consisted of the following (in thousand Euro):

	Year Ended December 31	
	2001	**2000**
Social security	299	369
Payroll taxes payable	198	242
Employee compensation	0	29
Other	13	106
	510	**746**

7. Short term debts to bank

The Company has lines of credits at Nord/LB of an amount of Euro 5,113 k (DM 10,000 k) with the following conditions:

- Term of the line of credit: no fixed repayment date
- Interest rate: 5,43% (fixed until March 28, 2002)

At December 31, 2001, the credit is used of an amount of Euro 4.464 k. Simultaneously the Company has Cash at Nord/LB of Euro 3.740 k.

8. Related Party Transactions

Loans payable to shareholders

During 2001, the Company entered into loan agreements for Euro 4,090 k with the following three shareholders and related parties, respectively.

	Amount (in thousand Euro)
Monika Proske-Ley	204,5
Nicola-Irina Basler	1.840,7
IKB Beteiligungsgesellschaft mbH, Düsseldorf	2.045,2

The loans are arranged with an subordination agreement. Interests on the note are payable at 9,0 %. Terms of the loans will end June 30, 2002.

9. Commitments and Contingencies

Operating Leases

Facilities and certain furniture and equipment are leased under operating leases. As of December 31, 2001, future minimum annual lease payments are as follows (in thousands Euro):

	Year Ended December 31
2002	2.741
2003	2.688
2004	2.292
2005	2.153
2006	2.150
Thereafter	25.797

Rent expense was Euro 2,908 k and Euro 2,262 k for the years ended December 31, 2001 and 2000, respectively. In 1999 the company entered into a rent agreement with a fixed rent period of 20 years for the premises at Ahrensburg. The total investment in the land and buildings by the owner of the property was about Euro 26,331 k which was financed by several loans from Kreditanstalt für Wiederaufbau, Frankfurt (KfW) and IKB.

If the company would have made the investment by its own the land and buildings and the related financing would have to be shown at its balance sheet. The effect on the income statement would not have been material. The annual rent payment amount to Euro 2.150 k for the years 2002 through 2007 and Euro 2.015 k for the years 2008 through 2018.

Legal Matters

The Company pursued some legal disputes arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters is not expected to have a material effect on consolidated financial statements.

10. Shareholders' Equity

Stock Compensation Plans

The Company has issued two stock option plans to employees of the Company. The objectives of these plans include attracting and retaining personnel and promoting the success of the Company by providing employees the opportunity to acquire common stock.

Under the 1999 stock option plan (the „1999 Plan") the Company is authorized to issue and has issued 80,094 option rights for the subscription of Basler shares to employees of Basler AG, Ahrensburg, and its affiliated companies until March 22, 1999. The option rights entitle the bearer to purchase shares in the Company at a price of Euro 57 and vest in four installments approximately after two, three, four and five years.

The options can only be exercised, if at certain specified dates the increase in the value of Basler stock – based on the average price of the share during the last five trading days before the first exercise period against the IPO price – at least equals the performance of the Neuer Markt index.

Under the 2000 stock option plan (the „2000 Plan") the Company is authorized to issue and has issued 78,000 option rights for the subscription of Basler shares to employees of Basler AG, Ahrensburg, and its affiliated companies on June 17, 2000. The option rights entitle the bearer to purchase shares in the Company at a price of Euro 75 (the average of the last 5 trading days in October when the program was initiated) and vest in four installments approximately after two, three, four and five years.

The options can only be exercised if at certain specified dates the increase in the value of Basler stock – based on the average price of the share during the last five trading days before the first exercise period against the strike price of the options – at least equals the performance of the Neuer Markt index.

All options from all programs not exercised after the last vesting period will expire.

The status of the Company's stock option plans is summarized below as of December 31, 2001:

	1999 Plan	2000 Plan
Outstanding at Jan. 1, 2000	80.094	0
Granted	0	78.000
Exercised	0	0
Forfeited	38.650	23.806
Outstanding at Dec. 1, 2001	41.444	54.194

None of the outstanding options as of December 31, 2001 are exercisable. All options vest between June 29, 2001 and May 25, 2005.

Due to the immaterial amounts of the intrinsic value of the options granted, the Company does not disclose the fair value of the options granted as the fair value is presumed to be immaterial. Accordingly, no pro forma disclosure of the compensation cost for these grants as determined in accordance with Statement of Financial Accounting Standard No. 123, „Accounting for Stock-Based Compensation," is disclosed.

Shares Reserved for Future Issuance

As of December 31, 2001, the Company had authorized and conditional capital of Euro 1,750,000 and Euro 350,000, respectively. Authorized capital is equivalent to additional authorized shares for acquisitions or sales of common stock with the approval of the Company's Supervisory Board.

11. Income Taxes

The income tax expense (benefit) consists of the following (in thousand Euro):

	As of 31. 12. 2001	As of 31. 12. 2000
Current taxes	109	162
Deferred taxes	108	1.471
	217	**1.633**

In October 2000, the German government passed a legislation that reduces the corporate income tax rate for all corporations in Germany from 40.0 % to 25.0 % effective January 1, 2001. A lower rate for distributed profits was abolished. Including the impact of the solidarity surcharge the enacted federal corporate income tax rate amounts to 26.4 % effective January 1, 2001. Including trade tax the total income tax rate for years subsequent to December 31, 2000 is assumed to be 36.7 %.

The tax rate of 36.7 % was applied to determine applicable deferred tax assets and deferred tax liabilities as of December 31, 2001.

The Company accounts for income taxes using an asset and liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which taxes become payable.

The components of the deferred tax asset were as follows (in thousands Euro):

	As of 2001	2000
Net operating loss carryforwards	1.550	1.550
Tax asset on net operating loss for the year 2001	4.768	0
Valuation allowance	-4.768	0
Other	-72	-114
Net deferred tax asset	1.478	1.436

A reconciliation of income taxes determined using the German corporate tax rate of 26.4 % plus the rate for trade taxes taking the respective tax deductibility for corporate tax benefits into consideration resulting in a combined statutory rate of 36.7 % for the year ended December 31, 2001, is as follows:

	Dec. 31, 2001	Dec. 31, 2000
Loss before income taxes	(20.785)	(3.278)
Tax rate	36.7%	36.7%
Expected income tax expense (benefit)	(7.628)	(1.203)
Effect of change in German tax laws 2000		86
Effect of other non-tax deductible expenses	2.800	15
Differences in foreign taxation	0	(448)
Changes in valuation allowance	4.768	0
Other	(157)	83
Actual income tax expense benefit	(217)	(1.633)

A valuation allowance has been recorded for the deferred tax asset on the net losses of 2001, as a result of uncertainties regarding the realization. For the year ended December 31, 2001, the Company had net operating loss carryforwards for tax reporting purposes in various tax jurisdictions as follows (in thousand Euro):

	Year
Germany	15.433
USA Federal	371
Taiwan	245
Singapore	240
Total	**16.289**

The German net operating loss carry forwards for tax purposes relates to corporate income tax and municipal trade tax and carry forward indefinitely. The Tax Reform Act of 1986 and German tax law contains provisions which may limit the net operating loss and tax credit carryforwards to be used in any given year upon the occurrence of certain events, including a significant change in ownership interest.

12. Income Statement

Expenses for material and personal comprise of the following (in thousand Euro):

	2001	2000
Cost of raw material, supplies and goods for resale	9.749	12.309
Cost of purchased services	550	1.958
	10.299	14.267

	2001	2000
Wages and salaries	13.071	14.172
Social securities costs	2.452	2.374
	15.523	**16.546**

13. Local Disclosure Requirements

Management Board

Dr. Dietmar Ley, Chairman

Axel Dancker (from October 1, 2001)

Peter Krumhoff (from October 1, 2001)

Thorsten Schmidtke (until June 15, 2001)

Bryan Hayes, Hamburg (until January 22, 2001)

Supervisory Board

Prof. Dr. Walter Kunerth, Chairman

Norbert Basler

Bernd Priske

Board Compensation

In 2001, the annual compensation for

the Supervisory Board was Euro 34 k. In 2001, the total annual compensation for the Management Board was Euro 358 k.

Investments

The following table lists directly held investments of the Company that are included in the consolidated financial statements as of December 31, 2001:

	Ownership
Basler Inc., Exton/USA	100%
Basler Asia Pte. Ltd., Singapore/Singapur	100%
Basler Vision Technologies Taiwan Inc., Taipei/Taiwan	100%

Employees

During 2001, the Company had an average of 239 employees.

Differences between U.S. GAAP and German Law

1. General

The consolidated financial statements of Basler AG, Ahrensburg, as of December 31, 2001 were prepared as exempting consolidated financial statements in accordance with §292a of the German Commercial Code (HGB) in conformity with U.S. GAAP and on the basis of the German Accounting Standards No. 1 (GAS 1) issued by the German Standardization Committee (Deutscher Standardisierungsrat DRSC e.V.).

The provisions of the German Commercial Code (HGB) and German Stock Corporation Law (AktG) differ from US-GAAP in certain respects. The main differences that may be relevant to an evaluation of the net worth, financial position, and the results of the Company are described below: Pursuant to HGB, all items in the balance sheet and income statement must be set out in the form and order laid down in §§266, 275 HGB. US-GAAP requires a different presentation, in which the balance sheet items are presented with more liquid items first. According to US-GAAP, the short-term portions of long-term receivables and liabilities are shown in a separate balance sheet item. The portion that falls due in less than one year is treated as short term.

2. Deferred Taxes on Loss Carryforwards

According to HGB, deferred tax refund claims arising from loss carryforwards may not be shown on the balance sheet as expected future tax savings are deemed to be not yet realized. According to US-GAAP, these types of future tax reduction claims are to be capitalized. Their value depends upon the probability of the loss carryforwards being utilized within the required period. The Company has partly recorded a valuation allowance for its deferred tax asset due to uncertainties regarding the realization of the asset.

3. Accrual for contingent losses

Under HGB, contingent losses of contract for the performance of continuous obligations are to be recognized in the balance sheet and the profit and loss account at the time the contract is closed. Under U.S.GAAP, these losses recorded in the income statement at the time the operating losses are incurred.

4. Use of Annual Loss

The Management Board of Basler AG proposes that the results for 2001 be carried forward.

Hamburg, February 2002

The Management Board

Dr. Dietmar Ley
Axel Dancker
Peter Krumhoff

Auditor's Report

We have audited the consolidated financial statements, consisting of the consolidated balance sheet, the group income statement, statement of changes in shareholders' equity, cash flow statement, and notes to the consolidated financial statements, of Basler Aktiengesellschaft for the fiscal year from January 1, 2000 to December 31, 2001.

The legal representatives of the company are responsible for the accounting system and preparation of the consolidated financial statements and group management report in compliance with German commercial law and the supplementary regulations in the articles of incorporation. Our responsibility is to express an opinion, based on our audit, on the compliance of the consolidated financial statements, including the accounting system, and on the group management report, with US GAAP (US Generally Accepted Accounting Principles).

We conducted our audit of the consolidated financial statements pursuant to Sec. 317 of the German Commercial Code (HGB) and in compliance with generally accepted German standards for the audit of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the net worth, financial position and results of operations as conveyed by the consolidated financial statements, in compliance with generally accepted accounting principles, and by the group management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipated. In the course of the audit, the effectiveness of the system of internal accounting controls was assessed, and the disclosures made in the books and records, consolidated financial statements and group management report were verified, mainly on a test basis. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification with the restriction that the appendix contains no segment reporting according to SFAS 131, or a classification of the sales revenues according to operational areas or geographic markets in accordance with Sec. 314 para. 1, s. 3 of the German Commercial Code (HGB).

Our audit based on the consolidated financial statements prepared by the Board of Management for the fiscal year from January 1, 2000 to December 31, 2001, gave no cause for qualification. In all material respects, the management report accurately presents the situation of the Company and the risks to its future development. We also confirm that the consolidated financial statements and the group management report for the fiscal year from January 1 to December 31, 2001, meet the requirements for the company to be exempted from the obligation to prepare consolidated financial statements and a management report for the Group under German law.

With this restriction the financial statements present a true and fair view of the Company's net worth, financial position, results of operations and the cashflows in the year under review in accordance with generally accepted accounting principles defined in US GAAP.

Without restricting or qualifying this assessment, we draw attention to the details given in the Directors' Report, where it is stated in the section headed „Performance, financial and economic risks" that should Basler AG not succeed in implementing turnaround in fiscal 2002 then appropriate cost-cutting measures will have to be taken. Should turnaround take longer than anticipated then it may be necessary to source additional capital to bridge this period of operative losses. We also wish to draw attention to the fact that Basler AG presently has short-term financing through three subordinated shareholder loans (Euro 4,128 k; limited in time until june 30, 2002) and bank loans (Euro 4.464 k) with no fixed repayment date. Additionally, as of December 31, 2001, the Company has access to credit lines amounting to Euro 649 k. The Company believes that it will require and have access to this external funding after June 30, 2002.

Arthur Andersen
Wirtschaftsprüfungsgesellschaft

Steuerberatungsgesellschaft mbH

signed	signed
Hoppe-Schumacher	Schulz
Auditor	Auditor

Hamburg, January 31, 2002

Income statement Basler AG for the financial year 2001 (HGB)

(in Euro)

	2001	2000
SALES	**24.185.055,65**	**35.587.357,29**
Increase or decrease in finished goods inventories		
and work in process	-511.233,94	-861.338,19
Own work capitalized	303.388,04	36.922,01
Other operating income	836.933,37	1.465.148,40
Cost of materials		
Cost of raw materials, consumables and		
goods for resale	-9.443.039,87	-12.669.233,06
Cost of purchased services	-576.704,52	-1.954.414,75
Personnel expenses		
Wages and salaries	-11.205.131,70	-12.029.457,57
Social security costs	-2.088.849,14	-2.278.626,16
Depreciation		
– of intangible and fixed assets	-970.690,19	-902.975,99
– on current assets	-3.601.743,46	0,00
Other operating expenses	-10.211.958,00	-10.532.368,04
Other interest and similar income	153.747,21	262.680,42
– thereof out of affiliated companies		
Euro 132.491,11 (prior year: Euro 150.424,38)		
Depreciation on investments	-7.614.030,65	0.00
Interests and other expenses	-557.252,22	-106.526,24
RESULT FROM ORDINARY ACTIVITIES	**-21.301.509,42**	**-3.982.831,88**
Income taxes	0,00	323.913,08
Other taxes	-2.343,74	-1.913,74
LOSS FOR THE YEAR	**-21.303.853,16**	**-3.660.832,54**
Unappropriated profit brought forward	-3.411.663,25	249.169,29
Transfer from capital reserves	3.411.663,25	0,00
ACCUMULATED DEFICIT	**-21.303.853,16**	**-3.411.663,25**

Cash flow statement Basler AG (HGB)

(in thousand Euro)

		2001	2000
Net loss	-21.304		-3.661
Depreciation of fixed assets and investments	8.585		903
Increase/decrease in accruals	1.467		504
Profit/loss from disposal of fixed assets	10		-6
Increase/decrease in inventories, trade and other receivables and in other assets not attributable to investment or financing activities	4.888		-1.037
Increase/decrease in trade and other payables and in other liabilities not attributable to investment or financing activities	-1.600		923
CASH FLOW FROM OPERATING ACTIVITIES		**-7.954**	**-2.374**
Inflows from disposals of property, plant and equipment/intangible assets	135		60
Outflows from disposals of property, plant and equipment/intangible assets	-760		-1.830
Inflows out of the asset deal regarding Photobit Corporation	7.273		0
Additions to financial assets	-36		-3.537
CASH FLOW FROM INVESTING ACTIVITIES		**6.612**	**-5.307**
Inflows from shareholder loans	4.090		0
Inflows from borrowing of finance loans	2.419		4.346
Outflows from the repayment of amounts borrowed	-2.429		0
CASH FLOW FROM FINANCING ACTIVITIES		**4.080**	**4.346**
CHANGES IN CASH		**2.738**	**-3.335**
CASH AT START OF FISCAL YEAR		**1.321**	**4.656**
CASH AT END OF FISCAL YEAR		**4.059**	**1.321**
COMPOSITION OF CASH AND CASH EQUIVALENTS			
Cash		4.059	1.321
		4.059	**1.321**

Balance sheet Basler AG as of December 31, 2001 (HGB)
Assets
(in Euro)

	31.12.2001	31.12.2000
FIXED ASSETS		
Intangible assets		
Franchises, trademarks, patents, licenses and similar rights	505.828,00	652.660,00
Property, plant and equipment		
Technical equipment and machines	1.175.626,00	1.268.309,10
Other equipment, factory and office equipment	1.519.761,00	1.622.410,95
Payments on account and assets under construction	0,00	13.421,41
	2.695.387,00	**2.904.141,46**
Financial assets		
Shares in affiliated companies	112.248,44	75.792,46
Investments	1.00	14.886.712,95
	112.249,44	**14.962.505,41**
	3.313.464,44	**18.519.306,87**
CURRENT ASSETS		
Inventories		
Raw materials, consumables and supplies	4.775.435,24	7.620.108,69
Work in process	1.833.365,71	2.016.934,37
Finished goods and merchandise	585.031,43	912.696,71
Payments on account	61.820,58	872.616,84
	7.255.652,96	**11.422.356,61**
Receivables and other assets		
Trade receivables	2.574.489,49	2.107.315,22
Receivables from affiliated companies	3.403.723,13	3.830.770,08
Other assets	197.937,46	988.199,86
	6.176.150,08	**6.926.285,16**
Cash in hand and bank balances	**4.058.563,64**	**1.321.002,86**
	17.490.366,68	**19.669.644,63**
PREPAID EXPENSES	**62.792,71**	**34.847,60**
	20.866.623,83	**38.223.799,10**

Balance sheet Basler AG as of December 31, 2001 (HGB)
Liabilities and Shareholder's Equity
(in Euro)

	31.12.2001	31.12.2000
SHAREHOLDER'S EQUITY		
Subscribed capital	3.500.000,00	3.500.000,00
Capital reserve	24.755.508,99	28.167.172,24
Accumulated loss	-21.303.853,16	-3.411.663,25
	6.951.655,83	**28.255.508,99**
ACCRUALS		
Other accruals	3.030.954,17	1.563.998,51
LIABILITIES		
Liabilities to banks	4.463.969,73	4.473.803,96
– of which due within one year		
Euro 4.463.969,73 (prior year: Euro 4.473.803,96)		
Payments received on account of orders	1.236.748,40	2.070.094,50
– of which due within one year		
Euro 1.236.748,40 (prior year: Euro 2.070.094,50)		
Trade payables	584.698,82	1.118.547,75
– of which due within one year		
Euro 584.698,82 (prior year: Euro 1.118.547,75)		
Other liabilities	4.598.596,88	741.845,39
– of which due within one year		
Euro 4.598.596,88 (prior year: Euro 741.845,39)		
– of which taxes: Euro 197.549,96		
(prior year: Euro 241.823,07)		
– of which for social security:		
Euro 290.929,90 (prior year: Euro 367.800,71)		
	10.884.013,83	**8.404.291,60**
	20.866.623,83	**38.223.799,10**

Fixed assets movements Basler AG for fiscal year 2001 (HGB)

(in Euro)

	AT COST			
	01. 01. 2001	additions	disposals	31. 12. 2001
INTANGIBLE ASSETS				
Franchises, trademarks, patents, licenses and similar rights	931.409,94	92.684,32	0,00	1.024.094,26
PROPERTY, PLANT AND EQUIPMENT				
Technical equipment, plant and machinery	2.129.498,74	409.179,44	108.101,89	2.430.576,29
Other equipment, fixtures, fittings and equipment	2.374.219,31	258.392,36	178.399,63	2.454.212,04
Advanced payments and plant and machinery in process of construction	13.421,41	0,00	13.421,41	0,00
	4.517.139,46	**667.571,80**	**299.922,93**	**4.884.788,33**
FINANCIAL ASSETS				
Shares in affiliated companies	75.792,46	36.455,98	0,00	112.248,44
Investments	14.886.712,95	0,00	7.272.681,30	7.614.031,65
	14.962.505,41	**36.455,98**	**7.272.681,30**	**7.726.280,09**
	20.411.054,81	**796.712,10**	**7.572.604,23**	**13.635.162,68**

ACCUMULATED DEPRECIATION				NET BOOK VALUES	
01. 01. 2001	additions	disposals	31. 12. 2001	31. 12. 2001	31. 12. 2000
278.749,94	239.516,32	0,00	518.266,26	505.828,00	652.660,00
861.189,64	488.543,48	94.782,83	1.254.950,29	1.175.626,00	1.268.309,10
751.808,36	242.630,39	59.987,71	934.451,04	1.519.761,00	1.622.410,95
0,00	0,00	0,00	0,00	0,00	13.421,41
1.612.998,00	**731.173,87**	**154.770,54**	**2.189.401,33**	**2.695.387,00**	**2.904.141,46**
0,00	0,00	0,00	0,00	112.248,44	75.792,46
0,00	7.614.030,65	0,00	7.614.030,65	1,00	14.886.712,95
0,00	**7.614.030,65**	**0,00**	**7.614.030,65**	**112.249,44**	**14.962.505,41**
1.891.747,94	**8.584.720,84**	**154.770,54**	**10.321.698,24**	**3.313.464,44**	**18.519.306,87**

Basler AG – Notes to the Financial Statements for the fiscal year ended December 31, 2001

I. General

Basler AG's financial statements have been prepared in accordance with accounting principles defined in the German Commercial Code. The provisions of the German Corporation Law were also observed. In cases where it is permissible to show data either in the accounts or in the notes to the accounts, the option to show a reference to in the accounts was exercised. The full cost procedure was used in the preparation of the statement of income. The company is listed on the stock exchange and is definable as a large corporation within the meaning of Section 267, paragraph 3 of the German Commercial Code.

II. Significant accounting policies including tax-relevant items

1. Accounting and valuation principles

Acquired intangible fixed assets have been valued at cost of acquisition less scheduled depreciation where applicable. Tangible fixed assets have been valued at acquisition or manufacturing cost less scheduled depreciation where applicable. Low-cost items valued individually at not more than 410 Euro are written off in the year of acquisition.

Depreciation was spread over the anticipated useful life of the assets and was charged on a straight-line basis in accordance with tax regulations.

Financial assets (interests and shares in affiliated companies) are carried at cost of acquisition. The valuation basis for interests and shares in other companies has been depreciated to reflect an exceptional item. Inventories are valued at the lower of acquisition/manufacturing cost or value on the closing day.

Manufacturing costs include not only directly applicable costs but also overheads and depreciation resulting from manufacturing activities.

Depreciation has been applied to avoid valuation risks in connection with excess inventories and slow disposal of these inventories. The valuation adjustment to raw materials, consumables and supplies, and to semi-finished products was carried out on the basis of anticipated sales. In the previous year depreciation was based on a stand-alone basis. Depreciation for the above named goods amounted to Euro 3.6 for the year under review.

All discernible risks have been taken into account in the valuation of accounts receivable.

A lump-sum reserve equivalent to 1% of total net accounts receivable was created to cover the general credit and collection risk.

Other accruals have been created to cover all discernible risks relating to contingent liabilities.

Liabilities have been shown at the higher of the amount repayable or the amount outstanding on the closing day.

2. Method of translation of foreign currency into Euros

The Financial Statements include items denominated in foreign currencies and translated into Euro. Accounts receivable denominated in foreign currencies have been translated into Euro at the lower of the rate applying at the time of the transaction or the rate applying on the closing day. Accounts payable have been translated into Euro at the higher of the rate applying at the time of the transaction or the rate applying on the closing day.

III. Notes and explanations on individual items in the balance sheet and the statement of income

1. Fixed and financial assets

We refer to pages 52 and 53 for details of classification and movements of fixed assets.

2. Receivables from affiliated companies

The receivables from affiliated companies are trade receivables amounting to Euro 4.121 k and are provided with subordination up to Euro 1.6 k. The collectability of these receivables is still given.

3. Other accruals

These are mainly provisions for anticipated losses presented by leases, warranties, leave, overtime and outstanding invoices. The contingent losses out of the leasing agreement concerning the building for the individual years of the rent time (till December 31, 2018) were discounted with a factor of 6% on the closing date.

4. Liabilities to banks

Bank loans have been secured by the transferral of inventories and accounts receivable.

5. Other liabilities

Other liabilities amounting to Euro 4.128.062,48 reflect loans granted to the company by shareholders including the resulting interest payments.

6. Other financial commitments

The company has the following commitments under rental, lease and service agreements:

falling due in 2002: Euro 2.741.338,22

falling due between 2003 and 2006: Euro 9.282.337,88

These are mainly commitments under leasing agreements for the office and production buildings in Ahrensburg.

7. Sales

The sales by geographic region in Euro thousand were as follows:

	TEuro
Germany	4.429
Rest of world	19.756
	24.185

The company is invoking Section 286, paragraph 2 of the German Commercial Code exempting it from publishing details of its sales by business divisions.

8. Exceptional depreciation in accordance with Section 277, paragraph 3 item 1 of the German Commercial Code

In the year under review an exceptional depreciation to the going value of Basler's interest in Photobit Corp. (Euro 7.6 billion) was carried out.

IV. Other mandatory information

1. Names of the members of the Board of Management

Dr. Dietmar Ley, Ahrensburg, Chairman

Axel Dancker, Sandhausen, as of October 1, 2001 (registered in the Trade Register on October 26, 2001)

Peter Krumhoff, Bad Homburg, as of October 1, 2001 (registered in the Trade Register on October 26, 2001)

Bryan Hayes, Hamburg, till January 22, 2001 (registered in the Trade Register on February 15, 2001)

Thorsten Schmidtke, Ahrensburg, till June 15, 2001 (registered in the Trade Register on July 19, 2001)

2. The following persons were members of the Supervisory Board

Prof. Dr. Walter Kunerth, Chairman

Senior Advisor Mergers & Acquisitions at Lazard & Co. GmbH

Norbert Basler, Deputy Chairman, Diplom-Ingenieur

Bernd Priske, Supervisory Board Director, Diplom-Betriebswirt,

Member of Management of Fortas AG

Other Supervisory Board directorships held in accordance with Section 285, Item 10 of the German Commercial Code

Prof. Dr. Walter Kunerth

Chairman of Supervisory Board of Götz AG, Regensburg

Chairman of Supervisory Board of Suspa Holding GmbH, Altdorf

Chairman of Supervisory Board of Paragon AG, Delbruch

Member of Supervisory Board of Gildemeister AG, Bielefeld

Member of Board of Directors of Autoliv Inc., Stockholm

Diplom-Betriebswirt Bernd Priske

Member of the Advisory Council of Genius Fenster und Türen GmbH, Toisdorf

Diplom-Ingenieur Norbert Basler

Member of Advisory Council of IKB Deutsche Industriebank AG, Düsseldorf

Member of Advisory Council of Kuhnke GmbH, Malente

Deputy Chairman of Supervisory Board of Plato AG, Lübeck

3. Renumeration of Management Board and Supervisory Board

The total remuneration paid to members of the Management Board for the fiscal year 2000 was Euro 358.000 and to the members of the Supervisory Board Euro 34.000.

Shares held by the Board of Management and Supervisory Board:

	2001
	Number of shares
Supervisory Board	
Prof. Dr.-Ing. Walter Kunerth (Chairman)	349
Norbert Basler (Deputy Chairman)	1.600.000
Bernd Priske	-
Management Board	
Dr. Dietmar Ley (Chairman)	122.000
Axel Dancker	-
Peter Krumhoff	-

4. Interests owned in other companies constituting 20% or more of the shareholder's equity in those companies and stockholdings in large corporations constituting 5% or more of the voting rights

Name, domicile	Shareholding (%)	Net income (loss)	Shareholder's equity
Basler Inc., Exton, USA	100	-165.366,01 US$	15.400,89 US$
Basler Asia Pte. Ltd., Singapore	100	-474.483,14 SG$	-241.860,53 SG$
Basler Vision Technologies Taiwan Inc., Taipei/Taiwan	100	TW$ -6.710.156,80	TW$ -5.710.156,80

The following stockholdings in other companies are declared in accordance with Section 285, Item 11 of the German Commercial Code:

To avoid exposing the subsidiaries to excessive indebtedness subordinated shareholder loans have been granted.

5. Stockholdings in large corporations constituting 5% or more of the voting rights:

Photobit Corporation (USA) 16 %

6. Shareholder's equity

The company's shareholder equity is Euro 3.500.000 in the form of 3.500.000 no par bearer shares. To ensure partial coverage of the loss reported in the balance sheet Euro 3.411.663,25 has been taken from the additional paid-in capital.

7. Authorized capital

The Management Board has been authorized, subject to the consent of the Supervisory Board, to increase the parent company's subscribed capital by a total of Euro 1.750.000 on or before March 2004 by one or more issues of new stock subscribed either in cash or in kind.

The Management Board is authorized, subject to the consent of the Supervisory Board, to restrict the preemptive rights of the stockholders as follows:

a) to a share of the subscribed capital up to a total amount of Euro 350.000 against payment of a price not substantially lower than the quoted share price in cases where the new stock is issued at an issue price

and/or

b) to a share of the subscribed capital up to a total amount of Euro 700.000 in the case of stock issues for the purpose of acquiring companies or interests in companies where such acquisition is considered beneficial to the company's interests.

If the Management Board should fail to invoke the aforementioned authorizations to restrict stockholders' preemptive rights, restrictions in stockholders' preemptive rights shall only apply to maximum amounts.

The Management Board shall determine, subject to the consent of the Supervisory Board, the other terms attaching to individual rights issues.

8. Conditional capital

The stockholders' meetings held on March 3 and March 19, 1999 approved conditional capital increases totalling Euro 350.000 of which Euro 100.000 must be used exclusively for the granting of stock option rights under a staff stock option scheme. Stock option rights on 100.000 shares have been granted in accordance with the provisions of Section 192, paragraph 2, Item 3 of the German Company Law (AktG).The options cannot be exercised before the spring of 2001 or 2002 and then only partially. Stock option rights have not been exercised yet.

9. Average number of employees during the fiscal year under review

	2001	2000
Management	2	3
Staff	239	255
	241	258

10. Information on the Group

Basler AG, Ahrensburg, is the parent company of the companies listed under Item 4 of the Notes on the Financial Statements in accordance with Section 292a of the German Commercial Code, and they are affiliated companies as defined in Section 271, paragraph 2 of the German Commercial Code. The consolidated financial accounts are available on request from the company's Ahrensburg office.

11. Shareholdings in Basler AG of more than 5%

As reported in previous years, Norbert Basler and IKB Beteiligungsgesellschaft mbH each hold more than 5% of Basler AG shares.

Ahrensburg, January 2002

The Management Board

Dr. Dietmar Ley
Axel Dancker
Peter Krumhoff

Auditor's Report

We have audited the financial statements, including the accounting system, and the management report of Basler Aktiengesellschaft for the fiscal year from January 1, 2001 to December 31, 2001. The legal representatives of the Company are responsible for the accounting system and preparation of the financial statements and management report in compliance with German commercial law. Our responsibility is to express an opinion, based on our audit, on the financial statements, including the accounting system, and on the management report. We conducted our audit of the financial statements pursuant to Sec. 317 of the German Commercial Code (HGB) and in compliance with the generally accepted German standards for the audit of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the net worth, financial position and results of operations as conveyed by the financial statements, in compliance with generally accepted accounting principles, and by the management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipated. In the course of the audit, the effectiveness of the system of internal accounting controls was assessed, and the disclosures made in the books and records, financial statements and management report were verified, mainly on a test basis. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

In our opinion the financial statements present a true and fair view of the Company's net worth, financial position and results of operations in accordance with generally accepted accounting principles. In all material respects, the management report accurately presents the situation of the Company and the risks to its future development.

Without restricting or qualifying this assessment, we draw attention to the details given in the Directors' Report, where it is stated in the section headed "Performance, financial and economic risks" that should Basler AG not succeed in implementing turnaround in fiscal 2002 then appropriate cost-cutting measures will have to be taken. Should turnaround take longer than anticipated then it may be necessary to source additional capital to bridge this period of operative losses. We also wish to draw attention to the fact that Basler AG presently has short-term financing through three subordinated shareholder loans (Euro 4.128 k limited to June 30, 2002) and liabilities to banks (Euro 4.464 k). Additionally, as of December 31, 2001, the Company has access to credit lines amounting to Euro 649 k. The Company believes that it will require and have access to this external funding after June 30, 2002.

Arthur Andersen
Wirtschaftsprüfungsgesellschaft

Steuerberatungsgesellschaft mbH

signed	signed
Hoppe-Schumacher	Schulz
Auditor	Auditor

Hamburg, January 31, 2002

Dates

28.02.2002	Release of Annual Report 2001
19.03.2002	Pressconference and Analystmeeting on Annual Report 2001
08.05.2002	Release of First Quarter Results 2002
12.06.2002	Annual Shareholder Meeting
21.08.2002	Release of Second Quarter Results 2002
13.11.2002	Release of Third Quarter Results 2002

Share Information
Security Code Number(s): 510 200
SE Code: BSL
Market issued/market place: Neuer Markt, Frankfurt a. M.
Designated Sponsors: Dresdner Kleinwort Wasserstein, HSBC Trinkaus&Burghardt
Underwriters: Dresdner Kleinwort Wasserstein, WestLB, BHF Bank
1st trading day: March 23, 1999
Euro Issue price: 57,00 Euro
1st price: 95,00 Euro
IPO volume: 700.000 stocks without par value
Greenshoe (exercised on March 31, 1999): 100.000 shares
Capital stock: 3,5 mill. Euro
Authorized Capital: 3,85 mill. Euro
End of financial year: 31.12.

Shareholder Structure
Norbert Basler 45,7%
Dr. Dietmar Ley 3,5 %
Free Float 50,8%

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